Ontario

Treasury Board Secretariat

PUBLIC ACCOUNTS OF ONTARIO

Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements

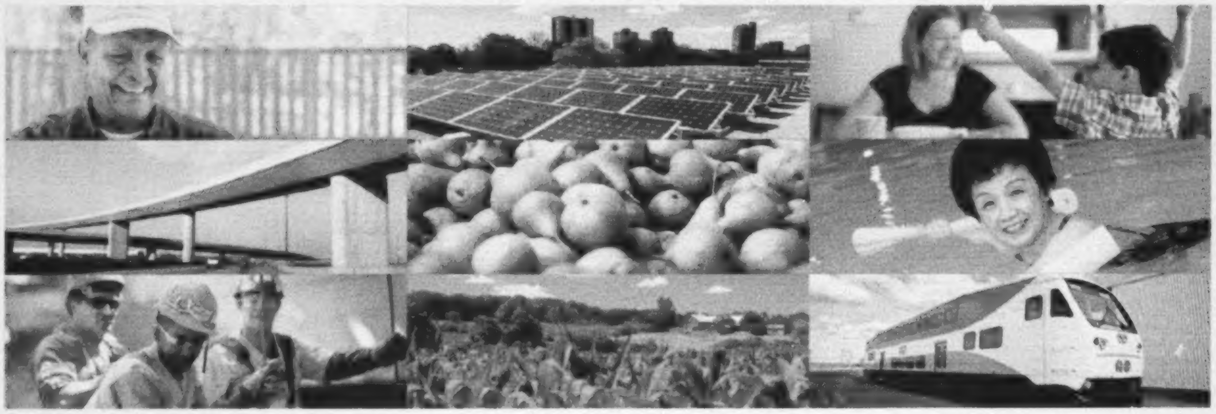
2014-2015

VOLUME 2C

Ontario

Treasury Board Secretariat

PUBLIC ACCOUNTS OF ONTARIO



Financial Statements of Government Business Enterprises, Trusts and Miscellaneous Statements

2014-2015

VOLUME 2C

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RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Agriculture and Food/Rural Affairs
- AgriCorp
- Agricultural Research Institute of Ontario
- Ontario Racing Commission

Ministry of the Attorney General
- Legal Aid Ontario
- The Public Guardian and Trustee for the Province of Ontario

Ministry of Economic Development, Trade and Employment/Research and Innovation
- Ontario Capital Growth Corporation
- Ontario Immigrant Investor Corporation

Ministry of Education
- Education Quality and Accountability Office
- Ontario Educational Communications Authority (TV Ontario)
- Ontario French-Language Educational Communications Authority

Ministry of Energy
- Hydro One Inc.
- Independent Electricity System Operator
- Ontario Energy Board
- Ontario Power Authority
- Ontario Power Generation Inc.

Ministry of the Environment
- Ontario Clean Water Agency

Ministry of Finance
- Deposit Insurance Corporation of Ontario
- Liquor Control Board of Ontario
- Losses Deleted from the Accounts
- Motor Vehicle Accident Claims Fund
- Ontario Electricity Financial Corporation
- Ontario Financing Authority
- Ontario Lottery and Gaming Corporation
- Ontario Securities Commission
- Pension Benefits Guarantee Fund
- Provincial Judges Pension Fund
- Revenue Remissions

Ministry of Government Services
- Ontario Pension Board

Ministry of Infrastructure
- General Real Estate Portfolio
- Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)
- Toronto Waterfront Revitalization Corporation (Waterfront Toronto)

RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Health and Long-Term Care
- Cancer Care Ontario
- eHealth Ontario
- Local Health Integration Network – Central
- Local Health Integration Network – Central East
- Local Health Integration Network – Central West
- Local Health Integration Network – Champlain
- Local Health Integration Network – Erie St. Clair
- Local Health Integration Network – Hamilton Niagara Haldimand Brant
- Local Health Integration Network – Mississauga Halton
- Local Health Integration Network – North East
- Local Health Integration Network – North Simcoe Muskoka
- Local Health Integration Network – North West
- Local Health Integration Network – South East
- Local Health Integration Network – South West
- Local Health Integration Network – Toronto Central
- Local Health Integration Network – Waterloo Wellington
- Ontario Agency for Health Protection and Promotion (Public Health Ontario)
- Ornge

Ministry of Labour
- Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing
- Ontario Mortgage and Housing Corporation

Ministry of Natural Resources
- Algonquin Forestry Authority
- Forest Renewal Trust

Ministry of Northern Development and Mines
- Northern Ontario Heritage Fund Corporation
- Ontario Northland Transportation Commission

Ministry of Tourism, Culture and Sport
- The Centennial Centre of Science and Technology (Ontario Science Centre)
- Metropolitan Toronto Convention Centre Corporation
- Niagara Parks Commission
- Ontario Place Corporation
- Ontario Tourism Marketing Partnership Corporation
- Ontario Trillium Foundation
- Ottawa Convention Centre Corporation
- Province of Ontario Council for the Arts (Ontario Arts Council)
- The Royal Ontario Museum
- Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015)

Ministry of Transportation
- Metrolinx

A GUIDE TO THE PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2014-2015 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act*.

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2014 to March 31, 2015. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

HYDRO ONE INC.
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Inc. (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 11, 2015.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition, management has assessed the design and operating effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014. The effectiveness of these internal controls is reported to the Audit, Finance and Pension Investment Committee of the Hydro One Board of Directors, as required.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the Shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit, Finance and Pension Investment Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit, Finance and Pension Investment Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit, Finance and Pension Investment Committee, with and without the presence of management, to discuss their audit findings, if any.

The President and Chief Executive Officer and the Chief Financial Officer (Acting) have certified Hydro One's annual Consolidated Financial Statements and annual MD&A, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting.

On behalf of Hydro One Inc.'s management:

Carmine Marcello
President and Chief Executive Officer

Ali R. Suleman
Chief Financial Officer (Acting)

HYDRO ONE INC.
INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Inc.

We have audited the accompanying Consolidated Financial Statements of Hydro One Inc., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with United States Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Hydro One Inc. as at December 31, 2014 and December 31, 2013, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 11, 2015

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015

Year ended December 31 (millions of Canadian dollars, except per share amounts)	2016	2015
Revenues		
Distribution (includes $[illegible] related party revenues; 2015 - $[illegible]) *(Note [illegible])*	[illegible]	[illegible]
Transmission (includes $[illegible] related party revenues; 2015 - $[illegible]) *(Note [illegible])*	[illegible]	[illegible]
Other	[illegible]	[illegible]
	[illegible]	[illegible]
Costs		
Purchased power (includes $[illegible] related party costs; 2015 - $[illegible]) *(Note [illegible])*	[illegible]	[illegible]
Operation, maintenance and administration *(Note [illegible])*	[illegible]	[illegible]
Depreciation and amortization *(Note [illegible])*	[illegible]	[illegible]
	[illegible]	[illegible]
Income before financing charges and provision for payments in lieu of corporate income taxes	[illegible]	[illegible]
Financing charges *(Note [illegible])*	[illegible]	[illegible]
Income before provision for payments in lieu of corporate income taxes	[illegible]	[illegible]
Provision for payments in lieu of corporate income taxes *(Notes [illegible])*	[illegible]	[illegible]
Net income	[illegible]	[illegible]
Net income (loss) attributable to noncontrolling interest *(Note [illegible])*	(2)	–
Net income attributable to the Shareholder of Hydro One Inc.	[illegible]	[illegible]
Other comprehensive income	–	–
Comprehensive income	[illegible]	[illegible]
Comprehensive income (loss) attributable to noncontrolling interest *(Note [illegible])*	(2)	–
Comprehensive income attributable to the Shareholder of Hydro One Inc.	[illegible]	[illegible]
Basic and fully diluted earnings per common share *(dollars) (Note [illegible])*	[illegible]	[illegible]
Dividends per common share declared *(dollars) (Note [illegible])*	[illegible]	[illegible]

See accompanying notes to Consolidated Financial Statements

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS
At December 31, 2014 and 2013

December 31 (millions of Canadian dollars)	2014	2013
Assets		
Current assets:		
Cash and cash equivalents *(Note 13)*	100	565
Accounts receivable (net of allowance for doubtful accounts – $66; 2013 – $56) *(Note 8)*	1,016	923
Due from related parties *(Note 20)*	224	197
Regulatory assets *(Note 11)*	31	47
Materials and supplies	23	23
Deferred income tax assets *(Note 7)*	19	18
Derivative instruments *(Note 13)*	2	6
Investment *(Notes 13, 20)*	–	251
Prepaid expenses and other assets	35	28
	1,450	2,058
Property, plant and equipment *(Note 9)*:		
Property, plant and equipment in service	25,356	23,820
Less: accumulated depreciation	9,134	8,615
	16,222	15,205
Construction in progress	1,025	1,078
Future use land, components and spares	154	148
	17,401	16,431
Other long-term assets:		
Regulatory assets *(Note 11)*	3,200	2,636
Intangible assets (net of accumulated amortization – $305; 2013 – $252) *(Note 10)*	276	313
Goodwill *(Note 4)*	173	133
Deferred debt issuance costs	36	36
Deferred income tax assets *(Note 7)*	7	11
Derivative instruments *(Note 13)*	–	6
Other	7	1
	3,699	3,136
Total assets	22,550	21,625

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)
At December 31, 2014 and 2013

December 31 (millions of Canadian dollars, except number of shares)	2014	2013
Liabilities		
Current liabilities:		
Bank indebtedness *(Note 13)*	2	31
Accounts payable	173	135
Accrued liabilities *(Notes 15, 16)*	611	654
Due to related parties *(Note 20)*	227	230
Accrued interest	100	100
Regulatory liabilities *(Note 11)*	47	85
Derivative instruments *(Note 13)*	3	–
Long-term debt payable within one year (includes $252 measured at fair value; 2013 – $506) *(Notes 12, 13)*	552	756
	1,715	1,991
Long-term debt (includes $nil measured at fair value; 2013 – $256) *(Notes 12, 13)*	8,373	8,301
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 15)*	1,533	1,488
Deferred income tax liabilities *(Note 7)*	1,313	1,129
Pension benefit liability *(Note 15)*	1,236	845
Environmental liabilities *(Note 16)*	221	239
Regulatory liabilities *(Note 11)*	168	163
Net unamortized debt premiums	18	20
Asset retirement obligations *(Note 17)*	9	14
Long-term accounts payable and other liabilities	17	20
	4,515	3,918
Total liabilities	**14,603**	**14,210**
Contingencies and commitments (Notes 22, 23)		
Subsequent Event (Note 25)		
Preferred shares (authorized: unlimited; issued: 12,920,000) *(Notes 18, 19)*	323	323
Noncontrolling interest subject to redemption *(Note 4)*	21	–
Equity		
Common shares (authorized: unlimited; issued: 100,000) *(Notes 18, 19)*	3,314	3,314
Retained earnings	4,249	3,787
Accumulated other comprehensive loss	(9)	(9)
Noncontrolling interest *(Note 4)*	49	–
Total equity	**7,603**	**7,092**
	22,550	**21,625**

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

S Pupatello

Sandra Pupatello
Chair

George L Cooke

George L. Cooke
Chair, Audit, Finance and Pension Investment Committee

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2014 and 2013

Year ended December 31, 2014 (millions of Canadian dollars)	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
January 1, 2014	3,314	3,787	(9)	–	7,092
Net income	–	749	–	(1)	748
Other comprehensive income	–	–	–	–	–
Amount contributed by noncontrolling interest	–	–	–	50	50
Dividends on preferred shares	–	(18)	–	–	(18)
Dividends on common shares	–	(269)	–	–	(269)
December 31, 2014	3,314	4,249	(9)	(49)	7,603

Year ended December 31, 2013 (millions of Canadian dollars)	Common Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
January 1, 2013	3,314	3,202	(9)	–	6,507
Net income	–	803	–	–	803
Other comprehensive income	–	–	–	–	–
Dividends on preferred shares	–	(18)	–	–	(18)
Dividends on common shares	–	(200)	–	–	(200)
December 31, 2013	3,314	3,787	(9)	–	7,092

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Operating activities		
Net income	747	803
Environmental expenditures	(18)	(16)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	641	597
Regulatory assets and liabilities	(69)	3
Deferred income taxes	10	(2)
Other	–	8
Changes in non-cash balances related to operations *(Note 21)*	(55)	11
Net cash from operating activities	1,256	1,404
Financing activities		
Long-term debt issued	628	1,185
Long-term debt retired	(776)	(600)
Amount contributed by noncontrolling interest *(Note 4)*	72	–
Dividends paid	(287)	(218)
Change in bank indebtedness	(29)	(11)
Other	(3)	(5)
Net cash from (used in) financing activities	(395)	351
Investing activities		
Capital expenditures *(Note 21)*		
Property, plant and equipment	(1,481)	(1,308)
Intangible assets	(23)	(79)
Acquisition of Norfolk Power Inc. *(Note 4)*	(66)	–
Proceeds from investment	250	–
Other	(6)	2
Net cash used in investing activities	(1,326)	(1,385)
Net change in cash and cash equivalents	(465)	370
Cash and cash equivalents, beginning of year	565	195
Cash and cash equivalents, end of year	**100**	**565**

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. The electricity rates of these businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton Networks), Hydro One Telecom Inc. (Hydro One Telecom), Hydro One Lake Erie Link Management Inc., Hydro One Lake Erie Link Company Inc., Norfolk Power Inc. (Norfolk Power), and Hydro One B2M Holdings. Intercompany transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars.

Hydro One performed an evaluation of subsequent events through to February 11, 2015, the date these Consolidated Financial Statements were issued, to determine whether any events or transactions warranted recognition and disclosure in these Consolidated Financial Statements. See Note 25 – Subsequent Event.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations (AROs), goodwill and asset impairments, contingencies, unbilled revenues, allowance for doubtful accounts, derivative instruments, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates, which may be impacted by future decisions made by the OEB or the Province.

Rate Setting

The Company's Transmission Business includes the separately regulated transmission businesses of Hydro One Networks and B2M Limited Partnership (B2M LP). The Company's consolidated Distribution Business includes the separately regulated distribution businesses of Hydro One Networks and the newly acquired Norfolk Power, as well as the subsidiaries Hydro One Brampton Networks and Hydro One Remote Communities.

The OEB has approved the use of US GAAP for rate setting and regulatory accounting and reporting by Hydro One Networks' transmission and distribution businesses, as well as by Hydro One Remote Communities, beginning with the year 2012. Up to the year ended December 31, 2014, Hydro One Brampton Networks used Canadian GAAP (Part V) for its distribution rate-setting purposes, and has transitioned to International Financial Reporting Standards beginning on January 1, 2015.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

Transmission

In May 2012, Hydro One Networks filed a cost-of-service application with the OEB for 2013 and 2014 transmission rates. In December 2012, the OEB approved the 2013 and 2014 revenue requirement of $1,438 million and $1,528 million, respectively.

In December 2013, Hydro One Networks filed a draft Rate Order with the OEB for 2014 transmission rates. The 2014 transmission revenue requirement was increased to $1,535 million from the originally-approved revenue requirement of $1,528 million, primarily due to changes in the cost of capital parameters for 2014 released by the OEB in November 2013. On January 9, 2014, the OEB approved the draft Rate Order for 2014 transmission rates as filed.

Distribution

In June 2012, Hydro One Networks filed an Incentive Regulation Mechanism (IRM) application with the OEB for 2013 distribution rates, to be effective January 1, 2013. In December 2012, the OEB issued its final Decision, which resulted in an increase in distribution rates of approximately 1.3% in 2013, or 0.4% when considering total bill impact, for a typical residential customer consuming 800 kWh per month. In April 2013, Hydro One Networks filed an IRM application with the OEB for 2014 distribution rates, to be effective January 1, 2014. In December 2013, the OEB issued its final Decision, which resulted in an increase in distribution rates of approximately 2.4% in 2014, or 0.85% when considering total bill impact, for a typical residential customer consuming 800 kWh per month.

In August 2012, Hydro One Brampton Networks filed an IRM application with the OEB for 2013 distribution rates, to be effective January 1, 2013. In December 2012, the OEB issued its final Decision, which resulted in an increase in distribution rates of approximately 0.3% in 2013, or less than 0.1% when considering total bill impact, for a typical residential customer consuming 800 kWh per month. In August 2013, Hydro One Brampton Networks filed an IRM application with the OEB for 2014 distribution rates, to be effective January 1, 2014. In December 2013, the OEB issued its final Decision, which resulted in a reduction in distribution rates of approximately 2.3% in 2014, or 0.5% when considering total bill impact, for a typical residential customer consuming 800 kWh per month.

In September 2012, Hydro One Remote Communities filed a cost-of-service application with the OEB for 2013 rates, seeking approval for a 2013 revenue requirement of $53 million. In June 2013, the OEB approved a revenue requirement of $51 million for 2013. In October 2013, Hydro One Remote Communities filed an IRM application with the OEB for 2014 rates, seeking approval for a rate increase of approximately 0.5%. In March 2014, the OEB approved an increase of approximately 1.7% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2014. The final rate increase was adjusted by the OEB's updated rate adjustment parameters and Hydro One Remote Communities' IRM stretch factor.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues are recognized on an accrual basis and include billed and unbilled revenues. Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates monthly revenue for a period based on wholesale electricity purchases because customer meters are not generally read at the end of each month. At the end of each month, the electricity delivered to customers, but not billed, is estimated and revenue is recognized. The unbilled revenue estimate is affected by energy demand, weather, line losses and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. Current legislation provides rate protection for prescribed classes of rural, residential and remote consumers by reducing the electricity rates that would otherwise apply.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are estimated and recorded based on wholesale electricity purchases. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company's best estimate of losses on billed accounts receivable balances. The allowance is based on accounts receivable aging, historical experience and other currently available information. The Company estimates the allowance for doubtful accounts on customer receivables by applying internally developed loss rates to the outstanding receivable balances by risk segment. Risk segments represent groups of customers with similar credit quality indicators and are computed based on various attributes, including number of days receivables are past due, delinquency of balances and payment history. Loss rates applied to the accounts receivable balances are based on historical average write-offs as a percentage of accounts receivable in each risk segment. An account is considered delinquent if the final amount billed is not received within 110 days of the invoiced date. Accounts receivable are written off against the allowance when they are deemed uncollectible. The existing allowance for uncollectible accounts will continue to be affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to the Shareholder of the parent company. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income (loss) and other comprehensive income (loss) attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Corporate Income Taxes

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate income taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) as modified by the *Electricity Act, 1998* and related regulations.

HYDRO ONE INC.
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Current and deferred income taxes are computed based on the tax rates and tax laws enacted at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the "more-likely-than-not" recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period in which new information about recognition or measurement becomes available.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable from, or payable to, the OEFC.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Deferred income taxes are recognized based on the estimated future tax consequences attributable to temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and their corresponding tax bases.

Deferred income tax liabilities are generally recognized on all taxable temporary differences. Deferred tax assets are recognized to the extent that it is more-likely-than-not that these assets will be realized from taxable income available against which deductible temporary differences can be utilized.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

If management determines that it is more-likely-than-not that some or all of a deferred income tax asset will not be realized, a valuation allowance is recorded against the deferred income tax asset to report the net balance at the amount expected to be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Company records regulatory assets and liabilities associated with deferred income taxes that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions received in aid of construction and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury,

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human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include the fibre optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Company's intangible assets primarily represent major company-wide computer applications.

Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized portion of financing costs is a reduction to financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

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Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The last review resulted in changes to rates effective January 1, 2013. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Rate Range	Rate Average
Transmission	57 years	1% – 2%	2%
Distribution	42 years	1% – 20%	2%
Communication	19 years	1% – 15%	4%
Administration and service	15 years	3% – 20%	7%

The cost of intangible assets is included primarily within the administration and service classification above. Amortization rates for computer applications software and other intangible assets range from 9% to 20%.

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense. Depreciation expense also includes the costs incurred to remove property, plant and equipment where no ARO has been recorded.

Goodwill

Goodwill represents the cost of acquired local distribution companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

For the year ended December 31, 2014, based on the qualitative assessment performed as at September 30, 2014, the Company has determined that it is not more-likely-than-not that the fair value of each applicable reporting unit assessed is less than its carrying amount. As a result, no further testing was performed, and the Company has concluded that goodwill was not impaired at December 31, 2014.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, impairment exists when the carrying value exceeds the sum of the future estimated undiscounted cash flows expected to result from the use and

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eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Hydro One regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. Management assesses the fair value of such long-lived assets using commonly accepted techniques, and may use more than one. Techniques used to determine fair value include, but are not limited to, the use of recent third party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2014, no asset impairment had been recorded for assets within either the Company's regulated or unregulated businesses.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading, the Company defers the external transaction costs related to obtaining debt financing and presents such amounts as deferred debt issuance costs on the Consolidated Balance Sheets. Deferred debt issuance costs are amortized over the contractual life of the related debt on an effective-interest basis and the amortization is included within financing charges in the Consolidated Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Hydro One presents net income and OCI in a single continuous Consolidated Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 13 – Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are

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designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized on its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in the Consolidated Statements of Operations and Comprehensive Income. Additionally, the Company enters into derivative agreements that are economic hedges which either do not qualify for hedge accounting or have not been designated as hedges. The changes in fair value of these undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives at December 31, 2014 or 2013.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

The Company recognizes the funded status of its pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

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Pension benefits

In accordance with the OEB's rate orders, pension costs are recorded on a cash basis as employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are fair valued at the end of each year.

Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan. The regulatory asset for the net underfunded projected benefit obligation for the pension plan, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension regulatory assets are remeasured at the end of each year based on the current status of the pension plan.

All future pension benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Post-retirement and post-employment benefits

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

Hydro One records a regulatory asset equal to the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans recorded at each year end based on annual actuarial reports. The regulatory asset for the incremental net unfunded projected benefit obligation for post-retirement and post-employment plans, in the absence of regulatory accounting, would be recognized in AOCI. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. Post transition, the actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.

Multiemployer Pension Plan

Employees of Hydro One Brampton Networks and the newly acquired Norfolk Power participate in the Ontario Municipal Employees Retirement System Fund (OMERS), a multiemployer, contributory, defined benefit public sector pension fund. OMERS provides retirement pension payments based on members' length of service and salary. Both the participating employers and members are required to make plan contributions. The OMERS plan assets are pooled together to provide

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benefits to all plan participants and the plan assets are not segregated by member entity. OMERS is registered with the Financial Services Commission of Ontario under Registration #0345983. At December 31, [illegible], OMERS had approximately [illegible] members, with approximately [illegible] members being current employees of Hydro One Brampton Networks and Norfolk Power.

The OMERS plan is accounted for as a defined contribution plan by Hydro One because it is not practicable to determine the present value of the Company's obligation, the fair value of plan assets or the related current service cost applicable to Hydro One Brampton Networks and Norfolk Power employees. Hydro One recognizes its contributions to the OMERS plan as pension expense, with a portion being capitalized. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with the contaminated land assessment and remediation (LAR) and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

AROs are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional AROs are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

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When recording an ARO, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an ARO is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have AROs, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no ARO currently exists for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable ARO exists. In such a case, an ARO would be recorded at that time.

The Company's AROs recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities and with the decommissioning of specific switching stations located on unowned sites.

3. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on the presentation of unrecognized tax benefits. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU provides guidance on revenue recognition that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact of adoption of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and related disclosures. This ASU is effective for the annual period ending December 31, 2016, and for annual and interim periods thereafter. The adoption of this ASU is not anticipated to have a significant impact on the Company's consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815). This ASU provides guidance on accounting for hybrid financial instruments issued in the form of a share. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of ASU 2014-16 on its consolidated financial statements.

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4. BUSINESS COMBINATIONS

B2M Limited Partnership

In 2012, Hydro One entered into an agreement with the Chippewas of Nawash First Nation and the Chippewas of Saugeen First Nation, collectively referred to as the Saugeen Ojibway Nation (SON), where a noncontrolling equity interest in Hydro One's new limited partnership, B2M LP, would be made available for purchase at fair value by the SON. B2M LP was formed by Hydro One in 2013 to hold most of the transmission lines and a licence to use the related land. These assets are associated with Hydro One's Bruce to Milton Transmission Reinforcement Project, an electricity transmission line (Bruce to Milton Line) in southwestern Ontario, from the Bruce Power facility in Kincardine to Hydro One's Milton Switching Station in the Town of Milton. Hydro One Networks will maintain and operate the Bruce to Milton Line in accordance with an operation and management services agreement. In November 2013, the OEB issued a Decision and Order granting B2M LP a transmission licence and granting Hydro One Networks leave to sell the relevant Bruce to Milton Line transmission assets to B2M LP.

On December 16, 2014, the relevant Bruce to Milton Line transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the SON acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired.

Part of the SON's equity interest in B2M LP is in Class B units of B2M LP that have a mandatory put option. The put option requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), the SON has the ability to require Hydro One to purchase the Class B units of B2M LP for net book value on the redemption date.

The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity. At December 31, 2014, the total noncontrolling interest was reduced by the 2014 net loss attributable to noncontrolling interest totalling $2 million, including $1 million relating to noncontrolling interest subject to redemption.

Acquisition of Norfolk Power

On August 29, 2014, Hydro One acquired 100% of the common shares of Norfolk Power, an electricity distribution and telecom company located in southwestern Ontario. The total purchase price for Norfolk Power, net of the long-term debt assumed and adjusted for preliminary working capital and other closing adjustments, is approximately $68 million.

The following table summarizes the preliminary determination of the fair value of the assets acquired and liabilities assumed:

(millions of Canadian dollars)	
Working capital	6
Property, plant and equipment	56
Deferred income tax assets	1
Goodwill	40
Bank indebtedness	(3)
Derivative instruments	(3)
Long-term debt	(26)
Post-retirement and post-employment benefit liability	(1)
Environmental liability	(1)
Long-term accounts payable and other liabilities	(1)
	68

The determination of the fair values of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed. The purchase agreement provides for final purchase price adjustments based on agreed working capital and other balances at the acquisition date which have not yet been finalized. The Company will continue to review information and perform further analysis prior to finalizing

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the total purchase price and therefore the actual total purchase price and the consequent impact on goodwill may differ from the amounts above.

Goodwill of approximately $40 million arising from the Norfolk Power acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Norfolk Power. All of the goodwill was assigned to Hydro One's Distribution Business segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

Norfolk Power contributed revenues of $18 million and net income of less than $1 million to the Company's consolidated financial results for the year ended December 31, 2014.

All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. The disclosure of Norfolk Power's pro forma information is immaterial to the Company's consolidated financial results for the year ended December 31, 2014.

Woodstock Hydro Purchase Agreement

On May 21, 2014, Hydro One reached an agreement with the City of Woodstock to acquire 100% of the common shares of Woodstock Hydro Holdings Inc. (Woodstock Hydro), an electricity distribution company located in southwestern Ontario. The acquisition is pending a regulatory decision from the OEB. The purchase price for Woodstock Hydro will be approximately $29 million, subject to final closing adjustments. The transaction is anticipated to be completed in 2015. In anticipation of the Woodstock Hydro acquisition, the Company made a refundable deposit totalling $2 million, which is recorded in prepaid expenses and other assets on the Consolidated Balance Sheet.

Haldimand Hydro Purchase Agreement

On June 10, 2014, Hydro One reached an agreement with Haldimand County to acquire 100% of the common shares of Haldimand County Utilities Inc. (Haldimand Hydro), an electricity distribution and telecom company located in southwestern Ontario. The acquisition is pending a regulatory decision from the OEB. The purchase price for Haldimand Hydro will be approximately $65 million, subject to final closing adjustments. The transaction is anticipated to be completed in 2015. In anticipation of the Haldimand Hydro acquisition, the Company made a refundable deposit totalling $3 million, which is recorded in prepaid expenses and other assets on the Consolidated Balance Sheet.

5. DEPRECIATION AND AMORTIZATION

Year ended December 31 (millions of Canadian dollars)	2014	2013
Depreciation of property, plant and equipment	565	533
Amortization of intangible assets	53	48
Asset removal costs	81	79
Amortization of regulatory assets	23	16
	722	676

6. FINANCING CHARGES

Year ended December 31 (millions of Canadian dollars)	2014	2013
Interest on long-term debt	432	416
Other	12	9
Less: Interest capitalized on construction and development in progress	(49)	(51)
Gain on interest-rate swap agreements	(10)	(11)
Interest earned on investments	(6)	(3)
	379	360

HYDRO ONE INC.
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For the years ended December 31, 2014 and 2013

7. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Income before provision for PILs	836	912
Canadian federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for PILs at statutory rate	222	242
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(72)	(72)
Pension contributions in excess of pension expense	(24)	(23)
Overheads capitalized for accounting but deducted for tax purposes	(15)	(14)
Interest capitalized for accounting but deducted for tax purposes	(13)	(13)
Environmental expenditures	(5)	(4)
Prior year's adjustments	(4)	(8)
Non-refundable investment tax credits	(3)	(4)
Post-retirement and post-employment benefit expense in excess of cash payments	3	4
Other	(1)	(1)
Net temporary differences	(134)	(135)
Net permanent differences	1	2
Total provision for PILs	89	109

The major components of income tax expense are as follows:

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Current provision for PILs	79	111
Deferred provision (recovery) for PILs	10	(2)
Total provision for PILs	89	109
Effective income tax rate	10.63%	11.98%

The current provision for PILs is remitted to, or received from, the OEFC. At December 31, 2014, $39 million due from the OEFC was included in due from related parties on the Consolidated Balance Sheet (2013 – $29 million).

At December 31, 2014, the total provision for PILs includes deferred provision for PILs of $10 million (2013 – deferred recovery of $2 million) that is not included in the rate-setting process, using the liability method of accounting. Deferred PILs balances expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates.

HYDRO ONE INC.
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Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities arise from differences between the carrying amounts and tax basis of the Company's assets and liabilities. At December 31, 2014 and 2013, deferred income tax assets and liabilities consisted of the following:

December 31 (millions of Canadian dollars)	2014	2013
Deferred income tax assets		
Post-retirement and post-employment benefits expense in excess of cash payments	8	7
Environmental expenditures	4	5
Depreciation and amortization in excess of capital cost allowance	(4)	–
Other	(1)	(1)
Total deferred income tax assets	7	11
Less: current portion	–	–
	7	11

December 31 (millions of Canadian dollars)	2014	2013
Deferred income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(1,713)	(1,556)
Regulatory amounts that are not recognized for tax purposes	(140)	(144)
Partnership interest	(38)	–
Goodwill	(21)	(20)
Post-retirement and post-employment benefits expense in excess of cash payments	559	542
Environmental expenditures	59	66
Other	–	1
Total deferred income tax liabilities	(1,294)	(1,111)
Less: current portion	19	18
	(1,313)	(1,129)

During 2014 and 2013, there were no changes in the rate applicable to future taxes.

8. ACCOUNTS RECEIVABLE

December 31 (millions of Canadian dollars)	2014	2013
Accounts receivable – billed	496	268
Accounts receivable – unbilled	586	691
Accounts receivable, gross	1,082	959
Allowance for doubtful accounts	(66)	(36)
Accounts receivable, net	1,016	923

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2014 and 2013:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Allowance for doubtful accounts – January 1	(36)	(23)
Write-offs	24	24
Additions to allowance for doubtful accounts	(54)	(37)
Allowance for doubtful accounts – December 31	(66)	(36)

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

9. PROPERTY, PLANT AND EQUIPMENT

December 31, 2014 (millions of Canadian dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	13,209	4,416	626	9,419
Distribution	9,076	3,225	320	6,171
Communication	1,100	615	56	541
Administration and Service	1,502	793	23	732
Easements	623	85	–	538
	25,510	9,134	1,025	17,401

December 31, 2013 (millions of Canadian dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	12,413	4,215	671	8,869
Distribution	8,498	3,046	316	5,768
Communication	1,060	560	53	553
Administration and Service	1,380	716	38	702
Easements	617	78	–	539
	23,968	8,615	1,078	16,431

Financing charges capitalized on property, plant and equipment under construction were $48 million in 2014 (2013 – $48 million).

10. INTANGIBLE ASSETS

December 31, 2014 (millions of Canadian dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	573	303	3	273
Other	5	2	–	3
	578	305	3	276

December 31, 2013 (millions of Canadian dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	557	249	3	311
Other	5	3	–	2
	562	252	3	313

Financing charges capitalized on intangible assets under development were $1 million in 2014 (2013 – $3 million). The estimated annual amortization expense for intangible assets is as follows: 2015 – $53 million; 2016 – $53 million; 2017 – $53 million; 2018 – $45 million; and 2019 – $31 million.

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11. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 (millions of Canadian dollars)	2014	2013
Regulatory assets:		
Deferred income tax regulatory asset	1,327	1,145
Pension benefit regulatory asset	1,236	845
Post-retirement and post-employment benefits	273	308
Environmental	239	266
Pension cost variance	90	80
DSC exemption	16	7
OEB cost assessment differential	12	9
Retail settlement variance accounts	11	–
Long-term project development costs	–	5
Other	27	18
Total regulatory assets	3,231	2,683
Less: current portion	31	47
	3,200	2,636
Regulatory liabilities:		
Rider 11	83	55
External revenue variance	54	81
CDM deferral variance account	25	–
Deferred income tax regulatory liability	21	19
PST savings deferral	19	17
Hydro One Brampton Networks rider	2	8
Retail settlement variance accounts	–	35
Rider 9	–	19
Other	11	14
Total regulatory liabilities	215	248
Less: current portion	47	85
	168	163

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2014 provision for PILs would have been higher by approximately $132 million (2013 – $139 million).

Pension Benefit Regulatory Asset

The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2014 OCI would have been lower by $391 million (2013 – higher by $670 million).

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Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2014 OCI would have been higher by $35 million (2013 – $12 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2014, the environmental regulatory asset decreased by $33 million (2013 – $3 million) to reflect related changes in the Company's PCB liability, and increased by $13 million (2013 – $26 million) due to changes in the LAR liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudency and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, 2014 operation, maintenance and administration expenses would have been lower by $20 million (2013 – higher by $23 million). In addition, 2014 amortization expense would have been lower by $18 million (2013 – $16 million), and 2014 financing charges would have been higher by $11 million (2013 – $10 million).

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the excess of pension costs paid as compared to OEB-approved amounts. In the absence of rate-regulated accounting, 2014 revenue would have been lower by $10 million (2013 - $19 million).

DSC Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the Distribution System Code (DSC), with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review until the next Hydro One Networks' distribution cost-of-service application. This program effectively ended at the end of 2014 with no new principal to be recorded in 2015.

OEB Cost Assessment Differential

In April 2010, the OEB issued its Decision regarding Hydro One Networks' distribution rate application for 2010 and 2011. As part of this decision, the OEB also approved the distribution-related OEB Cost Assessment Differential Account to record the difference between the amounts approved in rates and actual expenditures with respect to the OEB's cost assessments. This continued for 2012-2014 until the next Hydro One Networks' distribution cost-of-service application, which was submitted in 2014. This program effectively ended at the end of 2014 with no new activity to be recorded in 2015.

Retail Settlement Variance Accounts (RSVAs)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In December 2012, the OEB approved the disposition of the total RSVA balance accumulated from January 2010 to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014. At December 31, 2014, the RSVA was in a net asset position due to a change in global adjustment.

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Long-Term Project Development Costs

In May 2009, the OEB approved the creation of a deferral account to record Hydro One Networks' costs of preliminary work to advance certain transmission projects identified in the Company's 2009 and 2010 transmission rate applications. In March 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 2009 request from the Ministry of Energy and Infrastructure. In December 2012, the OEB approved the recovery of the December 31, 2012 balance, including accrued interest, to be recovered over a one-year period from January 1, 2014 to December 31, 2014.

Rider 11

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received. Rider 11 includes amounts previously included as Rider 8.

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account relates to the actual 2013 CDM compared to the amounts included in 2013 revenue requirement. The OEB rate order specifically states that the Ontario Power Authority (OPA) data used to calculate the difference between forecasted and actual savings will be provided one year in arrears, and as a result, no amount should be recorded in advance of notification from the OPA of actual results. This notification from the OPA typically occurs in September of each year.

PST Savings Deferral Account

The provincial sales tax (PST) and goods and services tax (GST) were harmonized in July 2010. Unlike the GST, the PST was included in operation, maintenance and administration expenses or capital expenditures for past revenue requirements approved during a full cost-of-service hearing. Under the harmonized sales tax (HST) regime, the HST included in operation, maintenance and administration expenses or capital expenditures is not a cost ultimately borne by the Company and as such, a refund of the prior PST element in the approved revenue requirement is applicable, and calculations for tracking and refund were requested by the OEB. For Hydro One Networks' transmission revenue requirement, PST was included between July 1, 2010 and December 31, 2010 and recorded in a deferral account, per direction from the OEB. For Hydro One Networks' distribution revenue requirement, PST was included between July 1, 2010 and December 31, 2014 and recorded in a deferral account, per direction from the OEB.

Hydro One Brampton Networks Rider

In December 2013, the OEB issued a decision for Hydro One Brampton Networks' 2014 distribution rates. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVAs. The OEB ordered that the approved balances be aggregated into a single regulatory account and disposed of through a rate rider over a two-year period from January 1, 2014 to December 31, 2015.

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Rider 9

In December 2012, as part of Hydro One Networks' 2013 IRM distribution rate application, the OEB approved for disposition certain distribution-related deferral account balances, including RSVA amounts and balances of Rider 2 and Rider 3, accumulated up to December 2011, including accrued interest, to be disposed over a 24-month period from January 1, 2013 to December 31, 2014.

12. DEBT AND CREDIT AGREEMENTS

Short-Term Notes

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its Commercial Paper Program which has a maximum authorized amount of $1,000 million. These short-term notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. Hydro One had no commercial paper borrowings outstanding as at December 31, 2014 and 2013.

Hydro One has a $1,500 million committed and unused revolving standby credit facility with a syndicate of banks, maturing in June 2019. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility is unsecured and supports the Company's Commercial Paper Program. The Company may use the credit facility for general corporate purposes, including meeting short-term funding requirements. The obligation of each lender to make any credit extension to the Company under its credit facility is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

Long-Term Debt

The Company issues notes for long-term financing under its Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under this program is $3,000 million. At December 31, 2014, $1,187 million remained available for issuance until October 2015.

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The following table presents the outstanding long-term debt at December 31, 2014 and 2013:

December 31 (millions of Canadian dollars)	**2014**	**2013**
3.13% Series 19 notes due 2014[1]	–	750
2.95% Series 21 notes due 2015[1]	500	500
Floating-rate Series 22 notes due 2015[2]	50	50
4.64% Series 10 notes due 2016	450	450
Floating-rate Series 27 notes due 2016[2]	50	50
5.18% Series 13 notes due 2017	600	600
2.78% Series 28 notes due 2018	750	750
Floating-rate Series 31 notes due 2019[2]	228	–
4.40% Series 20 notes due 2020	300	300
3.20% Series 25 notes due 2022	600	600
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	–
5.00% Series 11 notes due 2046	325	325
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	–
	8,923	9,045
Add: Unrealized mark-to-market loss[1]	2	12
Less: Long-term debt payable within one year	(552)	(756)
Long-term debt	8,373	8,301

[1] The unrealized mark-to-market loss relates to $250 million of the Series 21 notes due 2015 (2013 – $500 million of the Series 19 notes due 2014, and $250 million of the Series 21 notes due 2015). The unrealized mark-to-market loss is offset by a $2 million (2013 – $12 million) unrealized mark-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 13 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

[2] The interest rates of the floating-rate notes are referenced to the 3-month Canadian dollar bankers' acceptance rate, plus a margin.

In 2014, Hydro One issued $628 million (2013 – $1,185 million) of long-term debt under the MTN Program, and repaid the $750 million MTN Series 19 notes (2013 – repaid $600 million MTN Series 15 notes). In addition, the Company repaid long-term debt totalling $26 million assumed on the Norfolk Power acquisition.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 13 – Fair Value of Financial Instruments and Risk Management.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non-Derivative Financial Assets and Liabilities

At December 31, 2014 and 2013, the Company's carrying amounts of accounts receivable, due from related parties, cash and cash equivalents, bank indebtedness, accounts payable, and due to related parties are representative of fair value because of the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at December 31, 2014 and 2013 are as follows:

December 31 (millions of Canadian dollars)	2014 Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
Long-term debt				
$500 million of MTN Series 19 notes[1]	–	–	506	506
$250 million of MTN Series 21 notes[1]	252	252	256	256
Other notes and debentures[2]	8,675	10,159	8,295	9,018
	8,927	10,411	9,057	9,780

[1] The fair value of $500 million of the MTN Series 19 notes and of $250 million of the MTN Series 21 notes subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[2] The fair value of other notes and debentures, and the portions of the MTN Series 19 notes and the MTN Series 21 notes that are not subject to hedging, represents the market value of the notes and debentures and is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Fair Value Measurements of Derivative Instruments

At December 31, 2014, the Company had interest-rate swaps totalling $250 million (2013 – $750 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. The Company's fair value hedge exposure was equal to about 3% (2013 – 8%) of its total long-term debt of $8,927 million (2013 – $9,057 million). At December 31, 2014, the Company had the following interest-rate swaps designated as fair value hedges:

(a) two $125 million fixed-to-floating interest-rate swap agreements to convert $250 million of the $500 million MTN Series 21 notes maturing September 11, 2015 into three-month variable-rate debt.

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At December 31, 2016, the Company also had interest-rate swaps with a total notional value of $469 million (2015 – $900 million) classified as undesignated contracts. The undesignated contracts consist of the following interest-rate swaps:

(b) a $150 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on a portion of the above fixed-to-floating interest-rate swaps from December 15, 2016 to September 15, 2017;
(c) a $50 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on the $50 million floating-rate MTN Series 22 notes from January 24, 2016 to January 24, 2017;

(d) a $157 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on the $228 million floating-rate MTN Series 31 notes from December 22, 2016 to December 21, 2017;

(e) a $50 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on the $50 million floating-rate MTN Series 27 notes from March 3, 2017 to December 3, 2017;

(f) a $50 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on the $50 million floating-rate MTN Series 22 notes from January 24, 2017 to July 24, 2017; and

(g) three interest-rate swaps with a total notional value of $12 million that were assumed as part of the Norfolk Power acquisition. These swaps consist of $8 million and $2 million floating-to-fixed interest-rate swap agreements maturing on September 20, 2029, and a $2 million floating-to-fixed interest-rate swap agreement maturing on September 20, 2019.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at December 31, 2016 and 2015 is as follows:

December 31, 2016 (millions of Canadian dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	100	100	100	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	–	2	–
	102	102	100	2	–
Liabilities:					
Bank indebtedness	2	2	2	–	–
Derivative instruments					
Undesignated contracts – interest-rate swaps	5	5	–	5	–
Long-term debt	8,929	10,011	–	10,011	–
	8,936	10,018	2	10,016	–

December 31, 2015 (millions of Canadian dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	968	968	968	–	–
Investment	270	270	–	270	–
Derivative instruments					
Fair value hedges – interest-rate swaps	13	13	–	13	–
	1,251	1,251	968	283	–
Liabilities:					
Bank indebtedness	31	31	31	–	–
Long-term debt	9,057	9,780	–	9,780	–
	9,088	9,811	31	9,780	–

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Cash and cash equivalents include cash and short-term investments. At December 31, 2014, short-term investments consisted of bankers' acceptances and money market funds totalling [illegible] (2013 – [illegible] million). The carrying values are representative of fair value because of the short-term nature of these instruments.

The investment at December 31, 2013 represented the Province of Ontario Floating Rate Notes that matured in November 2014. The fair value of the investment was determined using inputs other than quoted prices that are observable for the asset, with unrecognized gains or losses recognized in financing charges. The Company obtained quotes from an independent third party for the fair value of the investment, who uses the market price of similar securities adjusted for changes in observable inputs such as maturity dates and interest rates.

The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no significant transfers between any of the fair value levels during the years ended December 31, 2014 and 2013.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although the Company could in the future decide to issue foreign currency-denominated debt which would be hedged back to Canadian dollars consistent with its risk management policy. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's Transmission and Distribution Businesses is derived using a formulaic approach that is based on the forecast for long-term Government of Canada bond yields and the spread in 30-year "A"-rated Canadian utility bonds over the 30-year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield or the "A"-rated Canadian utility spread used in determining the Company's rate of return would reduce the Transmission Business' 2014 annual results of operations by approximately [illegible] million (2013 – [illegible] million) and Hydro One Networks' distribution business' 2014 annual results of operations by approximately [illegible] million (2013 – [illegible] million).

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. In addition, the Company may utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing. Hydro One may also enter into derivative agreements such as forward-starting pay fixed-interest-rate swap agreements to hedge against the effect of future interest-rate movements on long-term fixed-rate borrowing requirements. Such arrangements are typically designated as cash flow hedges. No cash flow hedge agreements were in existence as at December 31, 2014 or 2013.

A hypothetical 10% increase in the interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's results of operations for the years ended December 31, 2014 or 2013.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of

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Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the years ended December 31, 2014 and 2013 are included in financing charges as follows:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Unrealized loss (gain) on hedged debt	(3)	(8)
Unrealized loss (gain) on fair value interest-rate swaps	3	8
Net unrealized loss (gain)	–	–

At December 31, 2014, Hydro One had $250 million (2013 – $750 million) of notional amounts of fair value hedges outstanding related to interest-rate swaps, with assets at fair value of $2 million (2013 – $12 million). During the years ended December 31, 2014 and 2013, there was no significant impact on the results of operations as a result of any ineffectiveness attributable to fair value hedges.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At December 31, 2014 and 2013, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any single customer. At December 31, 2014 and 2013, there was no significant accounts receivable balance due from any single customer.

At December 31, 2014, the Company's provision for bad debts was $66 million (2013 – $36 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At December 31, 2014, approximately 6% of the Company's net accounts receivable were aged more than 60 days (2013 – 4%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. In addition to payment netting language in master agreements, the Company establishes credit limits, margining thresholds and collateral requirements for each counterparty. Counterparty credit limits are based on an internal credit review that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings and risk management capabilities. The determination of credit exposure for a particular counterparty is the sum of current exposure plus the potential future exposure with that counterparty. The current exposure is calculated as the sum of the principal value of money market exposures and the market value of all contracts that have a positive mark-to-market position on the measurement date. The Company would offset the positive market values against negative values with the same counterparty only where permitted by the existence of a legal netting agreement such as an International Swap Dealers Association master agreement. The potential future exposure represents a safety margin to protect against future fluctuations of interest rates, currencies, equities, and commodities. It is calculated based on factors developed by the Bank of International Settlements, following extensive historical analysis of random fluctuations of interest rates and currencies. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with the Company as specified in each agreement. The Company monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At December 31, 2014, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was $3 million (2013 – $14 million). At December 31, 2014, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with five financial institutions as the counterparties. The credit exposure of three of the five counterparties accounted for more than 10% of the total credit exposure of derivative contracts.

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Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facility of $1,500 million. The short-term liquidity under the Commercial Paper Program, and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

At December 31, 2014, accounts payable and accrued liabilities in the amount of $784 million (2013 – $789 million) were expected to be settled in cash at their carrying amounts within the next 12 months.

At December 31, 2014, Hydro One had issued long-term debt in the principal amount of $8,923 million (2013 – $9,045 million). Principal repayments, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	**Long-term Debt Principal Repayments** *(millions of Canadian dollars)*	**Interest Payments** *(millions of Canadian dollars)*	**Weighted Average Interest Rate** *(%)*
1 year	550	419	2.8
2 years	500	393	4.3
3 years	600	381	5.2
4 years	750	350	2.8
5 years	228	327	1.6
	2,628	1,870	3.5
6 – 10 years	900	1,522	3.6
Over 10 years	5,395	4,373	5.4
	8,923	7,765	4.7

14. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, the Company targets to maintain an "A" category long-term credit rating.

The Company considers its capital structure to consist of Shareholder's equity, preferred shares, long-term debt, and cash and cash equivalents. At December 31, 2014 and 2013, the Company's capital structure was as follows:

December 31 (millions of Canadian dollars)	**2014**	**2013**
Long-term debt payable within one year	552	756
Less: cash and cash equivalents	100	565
	452	191
Long-term debt	8,373	8,301
Preferred shares	323	323
Common shares	3,314	3,314
Retained earnings	4,249	3,787
	7,563	7,101
Total capital	16,711	15,916

The Company has customary covenants typically associated with long-term debt. Among other things, Hydro One's long-term debt and credit facility covenants limit the permissible debt to 75% of the Company's total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2014 and 2013, Hydro One was in compliance with all of these covenants and limitations.

15. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Hydro One has a defined benefit pension plan, a supplementary pension plan, and post-retirement and post-employment benefit plans. The defined benefit pension plan (Pension Plan) is contributory and covers all regular employees of Hydro One and its subsidiaries, except employees of Hydro One Brampton Networks and Norfolk Power. Employees of Hydro One Brampton Networks and Norfolk Power participate in the OMERS plan. The supplementary pension plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for the limitations imposed by the *Income Tax Act* (Canada). The supplementary pension plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

The OMERS Plan

Hydro One contributions to the OMERS plan for the year ended December 31, 2014 were $2 million (2013 – $2 million). Company contributions payable at December 31, 2014 and included in accrued liabilities on the Consolidated Balance Sheets were less than $1 million (2013 – less than $1 million). Hydro One contributions do not represent more than 5% of total contributions to the OMERS plan, as indicated in OMERS' most recently available annual report for the year ended December 31, 2013.

At December 31, 2013, the OMERS plan was 88.2% funded, with an unfunded liability of $8,641 million. This unfunded liability could result in future payments by participating employers and members. Hydro One future contributions could be increased substantially if other entities withdraw from the plan.

Pension Plan, Post-Retirement and Post-Employment Plans

The Pension Plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation.

Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2014 of $174 million (2013 – $160 million) were based on an actuarial valuation effective December 31, 2013 (2013 – effective December 31, 2011) and the expected level of pensionable earnings. Estimated annual Pension Plan contributions for 2015 and 2016 are approximately $174 million and $175 million, respectively, based on the actuarial valuation as at December 31, 2013 and projected levels of pensionable earnings. Future minimum contributions beyond 2016 will be based on an actuarial valuation effective no later than December 31, 2016. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment benefit obligations is generally recognized over the expected average remaining service period of the employees. The measurement date for the Plans is December 31.

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Year ended December 31 (millions of Canadian dollars)	Pension Benefits 2014	 2013	Post-Retirement and Post-Employment Benefits 2014	 2013
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	6,576	6,507	1,531	1,459
Current service cost	145	170	41	40
Interest cost	312	278	73	63
Reciprocal transfers	–	1	–	–
Benefits paid	(319)	(317)	(45)	(44)
Net actuarial loss (gain)	821	(63)	(18)	13
Projected benefit obligation, end of year	7,535	6,576	1,582	1,531
Change in plan assets				
Fair value of plan assets, beginning of year	5,731	4,992	–	–
Actual return on plan assets	703	887	–	–
Reciprocal transfers	–	1	–	–
Benefits paid	(319)	(317)	–	–
Employer contributions	174	160	–	–
Employee contributions	35	30	–	–
Administrative expenses	(25)	(22)	–	–
Fair value of plan assets, end of year	6,299	5,731	–	–
Unfunded status	1,236	845	1,582	1,531

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets within the following line items:

December 31 (millions of Canadian dollars)	Pension Benefits 2014	 2013	Post-Retirement and Post-Employment Benefits 2014	 2013
Accrued liabilities	–	–	49	43
Pension benefit liability	1,236	845	–	–
Post-retirement and post-employment benefit liability	–	–	1,533	1,488
Unfunded status	1,236	845	1,582	1,531

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

December 31 (millions of Canadian dollars)	2014	2013
PBO	7,535	6,576
ABO	6,887	5,998
Fair value of plan assets	6,299	5,731

On an ABO basis, the Pension Plan was funded at 91% at December 31, 2014 (2013 – 96%). On a PBO basis, the Pension Plan was funded at 84% at December 31, 2014 (2013 – 87%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

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Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2014 and 2013 for the Pension Plan:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Current service cost, net of employee contributions	110	141
Interest cost	312	278
Expected return on plan assets, net of expenses	(369)	(309)
Actuarial loss amortization	103	175
Prior service cost amortization	2	2
Net periodic benefit costs	158	287
Charged to results of operations[1]	81	72

[1] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the year ended December 31, 2014, pension costs of $174 million (2013 – $160 million) were attributed to labour, of which $81 million (2013 – $72 million) was charged to operations, and $93 million (2013 – $88 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2014 and 2013 for the post-retirement and post-employment benefit plans:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Current service cost, net of employee contributions	41	40
Interest cost	73	63
Actuarial loss amortization	18	27
Prior service cost amortization	2	3
Net periodic benefit costs	134	133
Charged to results of operations	62	58

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

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The following weighted average assumptions were used to determine the benefit obligations at December 31, 2014 and 2013:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Year ended December 31	2014	2013	2014	2013
Significant assumptions:				
Weighted average discount rate	4.00%	4.75%	4.00%	4.75%
Rate of compensation scale escalation (without merit)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trends[1]	–	–	4.36%	4.39%

[1] 6.52% per annum in 2015, grading down to 4.36% per annum in and after 2031 (2013 – 6.81% in 2014, grading down to 4.39% per annum in and after 2031)

The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2014 and 2013. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	2014	2013
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.50%	6.25%
Weighted average discount rate	4.75%	4.25%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	11	11
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	4.75%	4.25%
Rate of compensation scale escalation (without merit)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees *(years)*	12	12
Rate of increase in health care cost trends[1]	4.39%	4.39%

[1] 6.81% per annum in 2014, grading down to 4.39% per annum in and after 2031 (2013 – 6.91% in 2013, grading down to 4.39% per annum in and after 2031)

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of a 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2014 and 2013 is as follows:

December 31 (millions of Canadian dollars)	2014	2013
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	248	258
Effect of a 1% decrease in health care cost trends	(193)	(200)

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The effect of a 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2014 and 2013 is as follows:

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	23	21
Effect of a 1% decrease in health care cost trends	(17)	(16)

The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2014 and 2013:

December 31, 2014				**December 31, 2013**			
Life expectancy at 65 for a member currently at				**Life expectancy at 65 for a member currently at**			
Age 65		**Age 45**		**Age 65**		**Age 45**	
Male	Female	Male	Female	Male	Female	Male	Female
23	25	24	26	23	25	24	26

Estimated Future Benefit Payments

At December 31, 2014, estimated future benefit payments to the participants of the Plans were:

(millions of Canadian dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2015	305	50
2016	316	52
2017	328	54
2018	339	56
2019	350	59
2020 through to 2024	1,889	332
Total estimated future benefit payments through to 2024	3,527	603

Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Pension Benefits:		
Actuarial loss (gain) for the year	511	(619)
Actuarial loss amortization	(103)	(175)
Prior service cost amortization	(2)	(2)
	406	(796)
Post-Retirement and Post-Employment Benefits:		
Actuarial loss (gain) for the year	(18)	13
Actuarial loss amortization	(18)	(27)
Prior service cost amortization	(2)	(3)
	(38)	(17)

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The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2014 and 2013:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Pension Benefits:		
Prior service cost	2	3
Actuarial loss	1,234	842
	1,236	845
Post-Retirement and Post-Employment Benefits:		
Prior service cost	–	2
Actuarial loss	273	306
	273	308

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
December 31 (millions of Canadian dollars)	2014	2013	2014	2013
Prior service cost	2	2	–	2
Actuarial loss	119	103	10	15
	121	105	10	17

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Audit, Finance and Pension Investment Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

At December 31, 2014, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	60.0	60.9
Debt securities	35.0	35.9
Other[1]	5.0	3.2
	100.0	100.0

[1] Other investments include real estate and infrastructure investments.

At December 31, 2014, the Pension Plan held no Hydro One corporate bonds (2013 – $15 million) and $340 million of debt securities of the Province (2013 – $217 million).

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Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2014 and 2013. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2014 and 2013, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with financial institutions rated at least "A+" by Standard and Poor's Rating Services Inc., DBRS Limited, and Fitch Ratings Inc., and "A1" by Moody's Investors Service Inc., and also by utilizing exposure limits to each counterparty and ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2014 and 2013:

December 31, 2014 (millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	–	18	142	160
Cash and cash equivalents	166	–	–	166
Short-term securities	–	176	–	176
Real estate	–	–	2	2
Corporate shares – Canadian	1,008	–	–	1,008
Corporate shares – Foreign	2,766	–	–	2,766
Bonds and debentures – Canadian	–	1,799	–	1,799
Bonds and debentures – Foreign	–	211	–	211
Total fair value of plan assets[1]	3,940	2,204	144	6,288

[1] At December 31, 2014, the total fair value of Pension Plan assets excludes $18 million of interest and dividends receivable, and $7 million relating to accruals for pension administration expense.

December 31, 2013 (millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled funds	1	16	117	134
Cash and cash equivalents	150	–	–	150
Short-term securities	–	180	–	180
Real estate	–	–	2	2
Corporate shares – Canadian	943	–	–	943
Corporate shares – Foreign	2,708	–	–	2,708
Bonds and debentures – Canadian	–	1,416	–	1,416
Bonds and debentures – Foreign	–	186	–	186
Total fair value of plan assets[1]	3,802	1,798	119	5,719

[1] At December 31, 2013, the total fair value of Pension Plan assets excludes $19 million of interest and dividends receivable, and $7 million relating to accruals for pension administration expense.

See Note 13 – Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2014 and 2013. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

Year ended December 31 (millions of Canadian dollars)	**2014**	**2013**
Fair value, beginning of year	119	106
Realized and unrealized gains	30	23
Purchases	23	–
Sales and disbursements	(28)	(10)
Fair value, end of year	144	119

There were no significant transfers between any of the fair value levels during the years ended December 31, 2014 and 2013.

The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. These sensitivity analyses resulted in negligible changes in the fair value of financial instruments classified in this level.

Valuation Techniques Used to Determine Fair Value

Pooled Funds

The pooled fund category mainly consists of private equity and infrastructure investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Infrastructure investments represent infrastructure funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Since these valuation inputs are not highly observable, private equity and infrastructure investments have been categorized as Level 3 within pooled funds.

Cash Equivalents

Demand cash deposits held with banks and cash held by the investment managers are considered cash equivalents and are included in the fair value measurements hierarchy as Level 1.

Short-Term Securities

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities have been categorized as Level 2.

Real Estate

Real estate investments represent private equity investments in holding companies that invest in real estate properties. The investments in the holding companies are valued using net asset values reported by the fund manager. Real estate investments are categorized as Level 3.

Corporate Shares

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

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Bonds and Debentures

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

16. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2014 and 2013:

Year ended December 31, 2014 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	201	65	266
Interest accretion	9	2	11
Expenditures	(5)	(13)	(18)
Revaluation adjustment	(33)	13	(20)
Environmental liabilities, December 31	172	67	239
Less: current portion	8	10	18
	164	57	221

Year ended December 31, 2013 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	197	52	249
Interest accretion	9	1	10
Expenditures	(2)	(14)	(16)
Revaluation adjustment	(3)	26	23
Environmental liabilities, December 31	201	65	266
Less: current portion	15	12	27
	186	53	239

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

December 31, 2014 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	195	70	265
Less: discounting accumulated liabilities to present value	23	3	26
Discounted environmental liabilities	172	67	239

December 31, 2013 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	237	68	305
Less: discounting accumulated liabilities to present value	36	3	39
Discounted environmental liabilities	201	65	266

At December 31, 2014, the estimated future environmental expenditures were as follows:

(millions of Canadian dollars)	
2015	18
2016	37
2017	36
2018	35
2019	33
Thereafter	106
	265

At December 31, 2014, of the total estimated future environmental expenditures, $195 million relates to PCBs (2013 – $237 million) and $70 million relates to LAR (2013 – $68 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*continued*)
For the years ended December 31, 2014 and 2013

Hydro One records a liability for the estimated future expenditures for the contaminated LAR and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.7% to 6.7%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is $195 million. These expenditures are expected to be incurred over the period from 2015 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2014 to reduce the PCB environmental liability by $33 million (2013 – $3 million).

LAR

The Company's best estimate of the total estimated future expenditures to complete its LAR program is $70 million. These expenditures are expected to be incurred over the period from 2015 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2014 to increase the LAR environmental liability by $13 million (2013 – $26 million).

17. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities and for the decommissioning of specific switching stations located on unowned sites. AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an ARO is recorded in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the ARO, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2018 and 2017

until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as AROs, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's AROs represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. AROs are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2018, Hydro One had recorded AROs of $9 million (2017 – $14 million), consisting of $8 million (2017 – $7 million) related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities, as well as $1 million (2017 – $7 million) related to the future decommissioning and removal of two switching stations. The amount of interest recorded is nominal.

18. SHARE CAPITAL

Preferred Shares

The Company has 12,920,000 issued and outstanding 5.5% cumulative preferred shares with a redemption value of $25 per share or $323 million total value. The Company is authorized to issue an unlimited number of preferred shares.

The Company's preferred shares are entitled to an annual cumulative dividend of $18 million, or $1.375 per share, which is payable on a quarterly basis. The preferred shares are not subject to mandatory redemption (except on liquidation) but are redeemable in certain circumstances. The shares are redeemable at the option of the Province at the redemption value, plus any accrued and unpaid dividends, if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of the redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

These preferred shares have conditions for their redemption that are outside the control of the Company because the Province can exercise its right to redeem in the event of change in ownership without approval of the Company's Board of Directors. Because the conditional redemption feature is outside the control of the Company, the preferred shares are classified outside of equity on the Consolidated Balance Sheets. Management believes that it is not probable that the preferred shares will become redeemable. No adjustment to the carrying value of the preferred shares has been recognized at December 31, 2018. If it becomes probable in the future that the preferred shares will be redeemed, the redemption value would be adjusted.

Common Shares

The Company has 100,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Common share dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial conditions, cash requirements, and other relevant factors, such as industry practice and Shareholder expectations.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2016 and 2015

Earnings per Share

Basic and diluted earnings per share have been calculated on the basis of net income attributable to the Shareholder of Hydro One and the weighted average number of common shares outstanding during the year.

19. DIVIDENDS

In 2016, preferred share dividends in the amount of $18 million (2015 – $18 million) and common share dividends in the amount of $269 million (2015 – $200 million) were declared.

20. RELATED PARTY TRANSACTIONS

Hydro One is owned by the Province. The OEFC, IESO, OPA, Ontario Power Generation Inc. (OPG) and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Province.

The Province

During 2016, Hydro One paid dividends to the Province totalling $287 million (2015 – $218 million).

In November 2016, the Company redeemed the $250 million Province of Ontario Floating-Rate Notes held as a long-term investment. These notes were originally purchased in January 2010 with a maturity date of November 19, 2016.

IESO

In 2016, Hydro One purchased power in the amount of $2,601 million (2015 – $2,877 million) from the IESO-administered electricity market.

Hydro One receives revenues for transmission services from the IESO, based on OEB-approved uniform transmission rates. Transmission revenues for 2016 include $1,556 million (2015 – $1,509 million) related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenues for 2016 include $127 million (2015 – $127 million) related to this program.

Hydro One also receives revenues related to the supply of electricity to remote northern communities from the IESO. Distribution revenues for 2016 include $32 million (2015 – $33 million) related to these services.

OPA

The OPA funds substantially all of the Company's conservation and demand management programs. The funding includes program costs, incentives, and management fees. In 2016, Hydro One received $57 million (2015 – $58 million) from the OPA related to these programs.

OPG

In 2016, Hydro One purchased power in the amount of $27 million (2015 – $17 million) from OPG.

Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. In 2016, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $12 million (2015 – $9 million), primarily for the Transmission Business. Operation, maintenance and administration costs in 2016 related to the purchase of services with respect to these service level agreements were $1 million (2015 – $1 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

OEFC

In 2014, Hydro One made payments in lieu of corporate income taxes to the OEFC totalling $86 million (2013 – $138 million).

In 2014, Hydro One purchased power in the amount of $9 million (2013 – $8 million) from power contracts administered by the OEFC.

Hydro One pays a $5 million annual fee to the OEFC for indemnification against adverse claims in excess of $10 million paid by the OEFC with respect to certain of Ontario Hydro's businesses transferred to Hydro One on April 1, 1999.

PILs and payments in lieu of property taxes are paid to the OEFC.

OEB

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and transmitters. In 2014, Hydro One incurred $12 million (2013 – $12 million) in OEB fees.

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest free and settled in cash.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

December 31 (millions of Canadian dollars)	2014	2013
Due from related parties	224	197
Due to related parties[1]	(227)	(230)
Investment	–	251

[1] Included in due to related parties at December 31, 2014 are amounts owing to the IESO in respect of power purchases of $214 million (2013 – $217 million).

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Accounts receivable	(93)	(78)
Due from related parties	(27)	(43)
Prepaid expenses and other assets	(13)	(5)
Accounts payable	39	13
Accrued liabilities	(35)	71
Due to related parties	(3)	(31)
Accrued interest	–	5
Long-term accounts payable and other liabilities	(3)	(5)
Post-retirement and post-employment benefit liability	80	84
	(55)	11

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after factoring in capitalized depreciation and the net change in related accruals:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Capital investments in property, plant and equipment	(1,511)	(1,312)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	30	4
Capital expenditures – property, plant and equipment	(1,481)	(1,308)

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after factoring in the net change in related accruals:

Year ended December 31 (millions of Canadian dollars)	2014	2013
Capital investments in intangible assets	(19)	(82)
Net change in accruals included in capital investments in intangible assets	(4)	3
Capital expenditures – intangible assets	(23)	(79)

Supplementary Information

Year ended December 31 (millions of Canadian dollars)	2014	2013
Net interest paid	412	395
PILs	86	138

22. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2014, the Company paid approximately $1 million (2013 – $2 million) in respect of these consents. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

23. COMMITMENTS

Outsourcing Agreements

The current agreement with Inergi LP (Inergi), an affiliate of Capgemini Canada Inc., expires on February 28, 2015. On November 28, 2014, Hydro One entered into an agreement with Inergi (Inergi Agreement), the service provider selected through a competitive procurement process which began in 2013, for second-generation back office and IT outsourcing services for a term of 58 months, commencing March 1, 2015 to December 31, 2019. Under the agreement, Inergi will provide Hydro One with settlements, source to pay services, pay operations services, information technology and finance and accounting services. Coincident with the conclusion of negotiations on the Inergi Agreement, Hydro One reached agreement with Inergi for the provision of second-generation customer service operations outsourcing services for a fixed period of three years beginning March 1, 2015 to February 28, 2018.

In September 2014, Hydro One entered into an agreement with Brookfield Johnson Controls Canada LP (Brookfield) for facilities management services for a term of ten years, from January 1, 2015 to December 31, 2024, with the option to renew for an additional term of three years. Under the agreement, Brookfield will provide us with facilities management and execution of certain capital projects as deemed required by the Company. The Brookfield Agreement has a value of up to approximately $658 million over the ten-year term of the agreement, including the facilities management portion of the contract, plus a variable amount of capital work depending on the needs that may arise as determined by the Company, with no minimum capital work guarantee. The agreement also includes a fixed management fee of approximately $2 million for each year of the term.

At December 31, 2014, the annual commitments under the outsourcing agreements were as follows: 2015 – $179 million; 2016 – $146 million; 2017 – $145 million; 2018 – $113 million; 2019 – $105 million; and thereafter – $13 million.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2014, the Company provided prudential support to the IESO on behalf of its subsidiaries using parental guarantees of $330 million (2013 – $325 million), and on behalf of two distributors using guarantees of $1 million (2013 – $1 million). In addition, as at December 31, 2014, the Company has provided letters of credit in the amount of $8 million (2013 – $21 million) to the IESO. The IESO could draw on these guarantees and/or letters of credit if these subsidiaries or distributors fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit. At December 31, 2014, Hydro One had letters of credit of $126 million (2013 – $127 million) outstanding relating to retirement compensation arrangements.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have a typical term of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. Hydro One Networks and Hydro One Telecom are the principal entities concerned.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

During the year ended December 31, 2014, the Company made lease payments totalling $11 million (2013 – $11 million). At December 31, 2014, the future minimum lease payments under non-cancellable operating leases were as follows: 2015 – $7 million; 2016 – $10 million; 2017 – $9 million; 2018 – $7 million; 2019 – $3 million; and thereafter – $9 million.

24. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing electricity transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering and selling electricity to customers; and
- Other, which includes certain corporate activities and the operations of the telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and provision for PILs from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies). Segment information on the above basis is as follows:

Year ended December 31, 2014 (millions of Canadian dollars)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	1,588	4,903	57	6,548
Purchased power	–	3,419	–	3,419
Operation, maintenance and administration	394	742	56	1,192
Depreciation and amortization	346	367	9	722
Income (loss) before financing charges and provision for PILs	848	375	(8)	1,215
Capital investments	845	680	5	1,530

Year ended December 31, 2013 (millions of Canadian dollars)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	1,529	4,484	61	6,074
Purchased power	–	3,020	–	3,020
Operation, maintenance and administration	375	672	59	1,106
Depreciation and amortization	327	340	9	676
Income (loss) before financing charges and provision for PILs	827	452	(7)	1,272
Capital investments	714	673	7	1,394

Total Assets by Segment:

December 31 (millions of Canadian dollars)	**2014**	**2013**
Transmission	12,540	11,846
Distribution	9,805	8,805
Other	205	974
Total assets	22,550	21,625

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2014 and 2013

25. SUBSEQUENT EVENT

On February 11, 2015, preferred share dividends in the amount of $4 million and common share dividends in the amount of $25 million were declared.

Liquor Control Board of Ontario

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, which complies with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

per/ N. Robert Peter
President & Chief Executive Officer

Rob Dutton
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 25, 2015

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statement of financial position as at March 31, 2015, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 25, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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LIQUOR CONTROL BOARD OF ONTARIO

Statement of Income and Comprehensive Income

(thousands of Canadian dollars)

Years ended March 31,	Note	2015	2014
Revenue	17	5,215,976	4,999,339
Cost of sales	6	(2,590,418)	(2,491,511)
Gross margin		2,625,558	2,507,828
Other income		31,430	55,701
Selling, general and administrative expenses	18	(835,401)	(816,131)
Income from operations		1,821,587	1,747,398
Finance income	20	1,709	1,993
Finance costs	12, 20	(4,881)	(4,708)
Net income		1,818,415	1,744,683
Other comprehensive income (loss):			
Actuarial (losses)/gains on non-pension employee benefits	12	(1,040)	911
Total other comprehensive income (loss)		(1,040)	911
Total comprehensive income		1,817,375	1,745,594

See accompanying notes to the financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Financial Position

(thousands of Canadian dollars)

	Note	March 31 2015	March 31 2014
ASSETS			
Current Assets			
Cash and cash equivalents	4	257,192	286,377
Trade and other receivables	5	44,863	42,831
Inventories	6	414,218	386,745
Prepaid expenses		9,497	10,556
Assets held for sale	7	9,284	-
Total Current Assets		735,054	726,509
Property, plant and equipment and intangible assets	8	378,195	364,435
Total Assets		**1,113,249**	**1,090,944**
LIABILITIES & EQUITY			
Current Liabilities			
Trade and other payables	9	554,617	549,255
Provisions	11	18,738	19,037
Current portion of non-pension employee benefits	12	12,254	11,700
Total Current Liabilities		585,609	579,992
Non-pension employee benefits	12	116,082	111,769
Total Liabilities		**701,691**	**691,761**
Equity			
Retained earnings		414,363	400,948
Accumulated other comprehensive loss		(2,805)	(1,765)
Total Equity		411,558	399,183
Total Liabilities and Equity		**1,113,249**	**1,090,944**

See accompanying notes to the financial statements.

Approved By:

Chair

L Murray

Board Member, Chair, Audit Committee

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Changes in Equity

(thousands of Canadian dollars)

	Retained Earnings	Accumulated other comprehensive income (loss)	Total Equity
Balance at April 1, 2014	400,948	(1,765)	399,183
Net income	1,818,415	-	1,818,415
Other comprehensive loss	-	(1,040)	(1,040)
Dividends paid to province	(1,805,000)	-	(1,805,000)
Balance at March 31, 2015	414,363	(2,805)	411,558
Balance at April 1, 2013	396,265	(2,676)	393,589
Net income	1,744,683	-	1,744,683
Other comprehensive income	-	911	911
Dividends paid to province	(1,740,000)	-	(1,740,000)
Balance at March 31, 2014	400,948	(1,765)	399,183

LIQUOR CONTROL BOARD OF ONTARIO

Statement of Cash Flows

(thousands of Canadian dollars)

Years ended March 31,	**2015**	**2014**
Operating activities:		
Net income	1,818,415	1,744,883
Depreciation and amortization	61,664	54,897
Gain on sale of property, plant and equipment and intangible assets	(627)	(1,802)
Non-pension employee benefit expenses	16,366	19,724
Non-pension employee benefit payments	(12,539)	(13,168)
	64,864	59,651
Change in non-cash balances related to operations:		
Trade and other receivables	(2,032)	(1,310)
Inventories	(27,473)	(7,808)
Prepaids	1,059	2,513
Trade and other payables	5,362	(11,864)
Provisions	(299)	409
	(23,383)	(18,060)
Net cash provided by operating activities	1,859,896	1,786,474
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(85,970)	(79,242)
Proceeds from sale of property, plant and equipment	1,889	1,722
Net cash used in investing activities	(84,081)	(77,520)
Financing activities:		
Dividend paid to the Province of Ontario	(1,805,000)	(1,740,000)
Net cash used in financing activities	(1,805,000)	(1,740,000)
Increase (decrease) in cash	(29,185)	(31,046)
Cash and cash equivalents, beginning of year	286,377	317,423
Cash and cash equivalents, end of year	257,192	286,377

LIQUOR CONTROL BOARD OF ONTARIO

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1. General Information

The Liquor Control Board of Ontario ("LCBO") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. LCBO is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, LCBO is exempt from income taxes. LCBO transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

LCBO's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

2. Basis of Preparation

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars ("C$"). LCBO's functional currency

The audited financial statements were approved by the Board of Directors and authorized for issue on June 25, 2015.

b. Basis of presentation

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit or loss ("FVTPL").

Use of estimates and judgments

LCBO makes judgments and assumptions concerning the future that impact the application of policies and reported amounts. Judgment is used mainly in determining whether a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. The resulting accounting estimates calculated using these judgments and assumptions will, by definition, seldom equal the related actual future results as they are based on historical experience and expectations of future events.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. **Non-pension employee benefits**

The present value of the non-pension employee benefits obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the expense for the non-pension employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

LCBO determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, LCBO uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 12.

ii. **Depreciation and amortization**

LCBO estimates the useful lives of intangibles, and each significant component of property, plant and equipment. The assets are depreciated or amortized over their estimated useful lives. Additional disclosures are presented in Note 8.

iii. **Impairment of property, plant and equipment and intangible assets**

LCBO has determined each store as a separate cash-generating unit ("CGU"). Where there are indicators for impairment, LCBO performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 8.

iv. **Allowance for impairment**

LCBO makes an assessment of whether trade and other receivables are collectible from customers. Accordingly, LCBO establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. Additional disclosures are presented in Note 3.

v. **Inventories**

LCBO makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, LCBO includes the direct warehouse handling costs within inventories and they are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 6.

vi. **Leases**

LCBO leases a significant number of retail store locations as part of its operations as well as other assets. In determining the classification of a lease as either a finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred. LCBO analyzes each lease independently, considering various factors such as whether there is a bargain purchase option included in the lease, the economic life of the asset when compared to the term of the lease, and the minimum lease payments when compared to the fair value of the leased asset.

In respect of finance leases, judgment is required in determining the appropriate discount rate implicit in the lease to discount minimum lease payments. For leases where it is not practical to determine the implicit discount rate, LCBO estimates an appropriate discount rate based on the Ontario government borrowing rate.

vii. **Provisions**

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future

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liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 11.

viii. **Ontario Deposit Return Program unredeemed container deposit income**

LCBO has determined that not all deposits paid by customers for the Ontario Deposit Return Program ("ODRP") containers will be redeemed. Estimates have been made for the redemption rate on ODRP containers based on past history. The estimated unredeemed ODRP containers deposits are treated as other income. Additional disclosures are presented in Note 23.

ix. **Unredeemed Gift cards**

LCBO has determined that not all gift cards purchased will be redeemed in full by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends and are included in revenues.

c. **New standards & interpretations not yet adopted**

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing our March 31, 2015 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
Amendments to IAS 19 – Employee Benefits	Amended in November 2013 to clarify how contributions from employees or third parties to defined benefit plans reduce service cost or affect remeasurements of the net defined benefit liability or asset. Amended in September 2014 to clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.	April 1, 2015 April 1, 2016	No anticipated impact
IFRS 15 – Revenue from Contracts with Customers	Previous standard(s): • IAS 11 – Construction Contracts; • IAS 18 – Revenue; • IFRIC 13 – Customer Loyalty Programmes; • IFRIC 15 – Agreements for the Construction of Real Estate; • IFRIC 18 – Transfer of Assets from Customers; • SIC-31 – Revenue – Barter Transactions Involving Advertising Services IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments).	April 1, 2017	LCBO is assessing the potential impact

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c. New standards & interpretations not yet adopted (continue)

Proposed standards and amendments	Description	LCBO Effective Date	Estimated impact
IFRS 9 – *Financial Instruments*	Previous standard(s): • IAS 39 – Financial Instruments: Recognition and Measurement Finalized version issued in July 2014 incorporating the classification and measurement, impairment and hedge accounting phases to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets.	April 1, 2018	LCBO is assessing the potential impact

3. Significant Accounting Policies

a. Cash & Cash Equivalents

Cash and cash equivalents comprise of cash and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

LCBO's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers' acceptances and term deposits.

b. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

Account receivables are net of an allowance for impairment where there is objective evidence that LCBO will not be able to collect all amounts due according to the original terms of the receivables. The loss is recognized as a selling, general and administrative expense in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 5.

c. Inventories

LCBO values inventories at the lower of cost and net realizable value with cost being determined by the weighted average cost method. Cost includes the cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. LCBO estimates net realizable value as the amount that inventories are expected to be sold at, less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 6.

d. Assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, and it should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell. An asset that is classified as held for sale is no longer depreciated. The resulting disclosures are presented in Note 7.

e. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of income and comprehensive income over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5-40 years
Leasehold Improvements	5-20 years
Furniture and Equipment	5-20 years
Computer Equipment	4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to LCBO, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of income and comprehensive income as incurred.

The resulting disclosures are presented in Note 8.

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f. Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	3-4 years

The resulting disclosures are presented in Note 8.

ii. Internally generated intangible assets – research & development costs

Research costs are expensed as incurred.

Development expenditures incurred are capitalized only if all the following criteria are met:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 8.

g. Impairment of property, plant and equipment and intangible assets

Annually LCBO reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, LCBO estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the Statement of income and comprehensive income in the year in which it occurs. The resulting disclosures are presented in Note 8.

h. Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non interest-bearing and are stated at amortized cost. The resulting disclosures are presented in Note 9.

i. Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 11.

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j. Financial instruments

Financial assets and financial liabilities are recognized when LCBO becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The LCBO has classified its financial instruments as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables or available for sale	Fair value which approximates amortized cost due to the short-term nature of the instruments.
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Derivatives and embedded derivatives[1]	Fair value through profit or loss ("FVTPL")	Fair value through profit or loss ("FVTPL")

[1] Derivatives are included in Trade and other payables in the Statement of financial position. The resulting disclosures are presented in Note 15.

Financial instruments measured at fair value must be classified according to a three-level hierarchy based on the type of inputs used to make the measurements. This hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than the Level 1 quoted prices that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market inputs (unobservable inputs).

At the end of each reporting period, the LCBO determines whether there is any indication that a financial asset may be impaired. It does so for all financial assets except for those recognized at fair value through profit or loss. A financial asset or group of financial assets is impaired when there is objective evidence of impairment. In instances of impairment, the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows.

LCBO's financial assets and liabilities are generally classified and measured as follows:

i. Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that LCBO manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial assets classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of income and comprehensive income in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

A derivative financial instrument is a fixed price commitment to buy or sell a financial instrument at a future date. Derivative financial instruments are classified as FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 15.

iv. Embedded derivatives

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. LCBO enters into inventory purchase contracts in currencies other than the Canadian dollar or that of the supplier's home or local currency, in which an embedded derivative may exist.

These embedded derivatives are accounted for as separate instruments and accounted for independently from the host contract and are measured at fair value at the end of the reporting period using forward exchange market rates. Embedded derivatives are included within trade and other payables in the Statement of financial position, any changes in their fair values are recognized in the Statement of income and comprehensive income. The resulting disclosures are presented in Note 15.

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k. Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of LCBO's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts, applicable taxes and container deposits, in the Statement of income and comprehensive income.

Revenue generated from gift cards is recognized when gift cards are redeemed. LCBO also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

i. Air Miles®[1]

Income from the Air Miles®[1] "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components: (1) Base and (2) Bonus. The associated costs of the Base are accounted for as a reduction to revenues in the Statement of income and comprehensive income. The associated income net of costs of the Bonus is accounted for as a reduction to cost of sales in the Statement of income and comprehensive income.

l. Other income

i. Services rendered

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist principally of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. Unredeemed ODRP container deposits

LCBO recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. LCBO determines its ODRP container redemption rate based on historical redemption data and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 23.

m. Vendor allowances

LCBO receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. LCBO recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of income and comprehensive income. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by LCBO for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. The consideration is reflected as a reduction in selling, general and administrative expenses.

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[1] AIR MILES® is a trademark of AIR MILES International Trading B.V. Used under license by LoyaltyOne, Inc.

n. Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. LCBO recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if LCBO has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 19.

ii. Pension Benefit Costs

LCBO provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines LCBO's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of LCBO.

LCBO's contributions to both plans are accounted for on a defined contribution basis with LCBO's contribution charged to the Statement of income and comprehensive income in the period the contributions become payable. The resulting disclosures are presented in Note 12.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and benefits extended to employees on long-term income protection ("LTIP"). These plans provide benefits to employees when they are no longer providing active service. Other non-pension employee benefit obligations of the LCBO include accumulating non-vesting sick leave ("NVSL") and Service Awards. LCBO accrues these employee benefits over the periods in which the employees earn the benefits or upon absence. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of income and comprehensive income.

The cost of the CSC, ECTB, LTIP, NVSL and Service Awards was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was determined using the average awards method consistent with the Workplace Safety and Insurance Board ("WSIB"). The annual benefit cost is the sum of the service cost, net interest and remeasurements of the net defined benefit liability.

LCBO recognizes all actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the CSC and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over employee's years of service. Any actuarial gains and losses due to remeasurements of the net defined benefit liability arising from the LTIP, WCB, NVSL and Service Awards benefits are recognized in the Statement of income and comprehensive income in the period in which they arise, since LTIP, WCB, NVSL and Service Awards benefits are defined as Other Long-Term Employee Benefits and a simplified accounting methodology for these benefits does not recognize remeasurements in Other comprehensive income. The resulting disclosures are presented in Note 12.

o. Finance income

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the Statement of income and comprehensive income, using the effective interest method. The resulting disclosures are presented in Note 20.

p. Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation and financing charges on capital leases. The resulting disclosures are presented in Notes 12 and 20.

q. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. LCBO has very few finance leases which are immaterial. All other leases are classified as operating leases.

Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 10.

r. Foreign currencies

Transactions in currencies other than LCBO's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, items denominated in foreign currencies, comprised of US bank accounts and liabilities, are translated at the prevailing rates. Exchange gains and losses are recognized immediately in the Statement of income and comprehensive income.

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4. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit, and short term investments (such as term deposits and bankers' acceptance), as follows:

	March 31, 2015	March 31, 2014
Cash on hand and in transit	63,305	74,362
Term deposits	-	60,000
Bankers' acceptances	193,887	152,015
	257,192	286,377

5. Trade and Other Receivables

	March 31, 2015	March 31, 2014
Trade and other receivables	45,172	43,120
Allowance for impairment	(309)	(289)
	44,863	42,831

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2015, approximately 66% (2014 – 62%) of LCBO's trade accounts receivable is due from one customer. Almost all of LCBO's receivables are due within 30 days.

The carrying amount of trade and other receivables is reduced through the use of an allowance for impairment at levels LCBO considered adequate to absorb credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of income and comprehensive income.

6. Inventories

The cost of inventories sold and recognized as cost of sales during the year ended March 31, 2015 was $2,590 million (2014 - $2,492 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2015 (2014 – nil).

7. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale from property, plant and equipment when they meet the criteria to be assets classified as held for sale as per LCBO's accounting policy.

In February 2012 the Minister of Finance announced the Province's intention to sell the LCBO's Head Office facility, warehouse facility, retail store and adjacent lands located in downtown Toronto.

A Request for Proposal ("RFP") in connection with the disposition of the LCBO Head Office Lands and for the provision of new LCBO Head Office and retail facility was issued by Infrastructure Ontario ("IO"), on behalf of LCBO. The land sale is expected to close in fiscal year 2015/2016.

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As of March 31, 2015, the LCBO reclassified $9.3 million (2014 – nil) net book value as assets held for sale from property, plant and equipment on the Statement of financial position.

8. Property, Plant & Equipment and Intangible Assets

Net book value of property, plant & equipment and intangible assets	March 31, 2015	March 31, 2014
Land	10,437	12,596
Buildings	95,081	104,698
Furniture and equipment	41,416	31,911
Leasehold improvements	162,931	156,296
Computer equipment	21,916	23,129
Computer software	19,115	19,543
Software/construction in progress	27,299	16,262
	378,195	364,435

The following table presents the changes in the cost and accumulated depreciation and impairment on the LCBO's property, plant and equipment and intangible assets:

Property, plant & equipment and intangible assets continuity for the year ended March 31, 2015

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Computer software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2014	12,596	393,283	125,560	427,993	52,101	75,495	16,262	1,103,290
Additions	-	8,466	17,127	32,728	7,552	9,060	11,037	85,970
Transfers to assets held for sale	(1,991)	(46,890)	-	-	-	-	-	(48,881)
Net Additions	(1,991)	(38,424)	17,127	32,728	7,552	9,060	11,037	37,089
Disposals/Retirements	(168)	(3,257)	(1,163)	-	(5,320)	(102)	-	(10,010)
Balance at March 31, 2015	10,437	351,602	141,524	460,721	54,333	84,453	27,299	1,130,369
Accumulated depreciation and impairment								
Balance at April 1, 2014	-	288,585	93,649	271,697	28,972	55,952	-	738,855
Depreciation for the year	-	9,889	7,527	26,093	8,732	9,423	-	61,664
Impairment losses	-	-	-	-	-	-	-	-
Transfers to assets held for sale	-	(39,597)	-	-	-	-	-	(39,597)
Disposals/Retirements	-	(2,356)	(1,068)	-	(5,287)	(37)	-	(8,748)
Balance at March 31, 2015	-	256,521	100,108	297,790	32,417	65,338	-	752,174
Net book value at March 31, 2015	10,437	95,081	41,416	162,931	21,916	19,115	27,299	378,195

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Property, plant & equipment and intangible assets continuity for the year ended March 31, 2014

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Technology software	Software/ Construction in progress	Total
Cost								
Balance at April 1, 2013	12,647	384,716	115,284	381,009	41,295	65,472	29,303	1,029,726
Additions	-	9,650	11,753	46,984	13,698	10,198	76,881	169,164
Transfers among categories	-	-	-	-	-	-	(89,922)	(89,922)
Net Additions	-	9,650	11,753	46,984	13,698	10,198	(13,041)	79,242
Disposals/Retirements	(51)	(1,083)	(1,477)	-	(2,892)	(175)	-	(5,678)
Balance at March 31, 2014	12,596	393,283	125,560	427,993	52,101	75,495	16,262	1,103,290
Accumulated depreciation and impairment								
Balance at April 1, 2013	-	279,700	86,643	248,635	25,782	47,796	-	688,556
Depreciation for the year	-	9,630	8,387	23,062	5,487	8,331	-	54,897
Impairment losses	-	-	-	-	-	-	-	-
Transfers among categories	-	-	-	-	-	-	-	-
Disposals/Retirements	-	(745)	(1,381)	-	(2,297)	(175)	-	(4,598)
Balance at March 31, 2014	-	288,585	93,649	271,697	28,972	55,952	-	738,855
Net book value at March 31, 2014	12,596	104,698	31,911	156,296	23,129	19,543	16,262	364,435

9. Trade and Other Payables

	March 31, 2015	March 31, 2014
Trade payables	273,514	266,618
Accruals and other payables	281,103	282,637
	554,617	549,255

10. Operating Lease Arrangement

LCBO enters into operating leases in the ordinary course of business, primarily for retail stores. The leases have varying terms, escalation clauses and renewal rights.

Operating lease payments in 2015 were $77.5 million (2014 – $71.8 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2015
Not later than one year	83,228
Later than one year and not later than five years	308,069
Later than five years	513,266
	904,563

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2015 and 2014

(thousands of Canadian dollars)

11. Provisions

The following table represents the changes to LCBO's provisions:

Provisions continuity for the year end March 31, 2015

	Short term employee benefits	Other	Total
Balance at April 1, 2014	18,370	667	19,037
Charges recognized during the year	17,927	811	18,738
Utilization of provision	(18,370)	(667)	(19,037)
Balance at March 31, 2015	17,927	811	18,738

Provisions continuity for the year end March 31, 2014

	Short term employee benefits	Other	Total
Balance at April 1, 2013	17,910	718	18,628
Charges recognized during the year	18,370	667	19,037
Utilization of provision	(17,910)	(718)	(18,628)
Balance at March 31, 2014	18,370	667	19,037

Disclosed as:	March 31, 2015	March 31, 2014
Current	18,738	19,037
Non-current	-	-
	18,738	19,037

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when LCBO agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements
For the years ended March 31, 2015 and 2014
(thousands of Canadian dollars)

13. Employee Benefits

a. Pension plan

For the year ended March 31, 2015, the expense was $27.3 million (2014 – $27.1 million) and is included in selling, general and administrative expenses in the Statement of income and comprehensive income.

b. Non-pension employee benefits

The non-pension employee benefits obligation ("benefit obligation") include accruals for contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), benefits extended to employees on long-term income protection ("LTIP"), unfunded workers compensation obligation ("WCB"), non-vesting sick leave plan ("NVSL") and service awards.

LCBO measures its benefit obligation for accounting purposes as at March 31st of each year.

As of March 31, 2015, the weighted average duration of the plans obligations are 7.4 years (2014 – 7.9 years).

i. **Statement of financial position**

The non-pension employee benefits recognized in the Statement of financial position is as follows:

	March 31, 2015	March 31, 2014
Current	12,754	11,700
Non current	116,082	111,769
Total non-pension employee benefit obligation	128,836	123,469

ii. **Statement of income and comprehensive income**

The non-pension employee benefit costs recognized in the Statement of income and comprehensive income is as follows:

	March 31, 2015	March 31, 2014
Current service cost	10,357	12,660
Past service cost – NVSL and Service Awards	-	13,440
Actuarial losses/(gains) on non-vesting benefits	1,247	(11,078)
Total costs included in expenses	11,604	15,022
Interest costs	4,782	4,702
Total costs included in finance costs	4,782	4,702
Total non-pension employee benefit expenses	16,386	19,724

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2016 and 2015

(thousands of Canadian dollars)

iii. Other comprehensive income

The non-pension employee benefits recognized in the other comprehensive income are as follows:

	March 31, 2016	March 31, 2015
Opening cumulative actuarial losses recognized	(1,705)	(2,076)
Net actuarial (losses)/gains recognized	(1,280)	371
Closing cumulative actuarial losses recognized	(2,985)	(1,705)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2016	March 31, 2015
Opening benefit obligation	123,489	117,824
Prior obligation – NVSL and Service Awards	-	13,440
Current service cost	10,357	12,880
Interest on obligation	4,782	4,702
Actuarial losses from changes in demographic assumptions	218	337
Actuarial losses/(gains) from changes in financial assumptions	8,749	(2,918)
Actuarial gains from other	(6,878)	(8,710)
Benefits paid	(12,338)	(13,168)
Closing benefit obligation	128,379	123,489

v. Significant assumptions

The significant assumptions used are as follows:

	CSC, ECTB, NVSL & Service Awards		WCB		LTIP	
	2016	2015	2016	2015	2016	2015
Discount rate to determine the benefit obligation	3.33%	3.80%	3.33%	3.80%	3.33%	3.80%
Discount rate to determine the benefit cost	3.80%	3.50%	3.80%	3.50%	3.80%	3.50%
Salary rate increase	2% per annum	1.00% for 1 year and 3.00% thereafter	n/a	n/a	2.00%	2.00%
Benefit index	n/a	n/a	2.5%	2.5%	n/a	n/a
Health cost rate increase	n/a	n/a	6.80% (7.5% per annum in 2013 reducing to 4.5% in 2023)	7.20% (7.5% per annum in 2013 reducing to 4.50% in 2023)	6.80% (7.5% per annum in 2013 reducing to 4.5% in 2023)	7.20% (7.5% per annum in 2013 reducing to 4.50% in 2023)

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements
For the years ended March 31, 2015 and 2014
(thousands of Canadian dollars)

vi. **Sensitivity analysis**

The sensitivity of the non-pension employee benefit obligation to changes in assumptions is set out below:

Assumption	Impact on total non-pension employee benefit obligation	
	0.5% increase in assumption	0.5% decrease in assumption
Discount rate	(4,511)	4,862
Health care trend rate	965	(882)
Salary Scale	3,042	(2,882)
Benefit Indexation	136	(125)

13. Contingent Liabilities

LCBO is involved in various legal actions arising out of the ordinary course and conduct of business. In view of the inherent difficulty of predicting the outcome on such matters, LCBO cannot state what the eventual outcome on such matters will be. However, based upon legal assessment and information presently available, LCBO does not believe that liabilities, if any, arising from pending litigation will have a material effect on the financial statements, with the exception of the following items.

In January 2015, LCBO was served with a proposed class proceeding seeking damages in the amount of $1.4 billion against LCBO, Brewers Retail Inc. ("BRI") and BRI's 3 corporate owners. The claim is commenced by an individual and a corporation who intend to represent a class composed of those individuals and businesses who purchased beer in Ontario since June 1, 2000 under the Framework for Improved Cooperation & Planning between Brewers Retail Inc. and the Government of Ontario (through the LCBO), dated June 1, 2000. The statement of claim alleges conspiracies regarding beer market allocation, pricing and licensee fees. The claim is being defended vigorously. At this point in time it is not possible to estimate the amounts, if any, that LCBO may have to make in the future regarding the claim.

In May 2013, during collective bargaining, OPSEU filed an Application with the Human Rights Tribunal against LCBO and Ministry of Finance alleging systemic gender discrimination. In essence, the claim alleges that by not compensating Casual Customer Service Representatives ("CSR's") at the same amount as Permanent Full Time CSR's, LCBO is discriminating on the basis of sex, which imposes significant disadvantages on workers in the predominantly female job classification of Casual CSR. LCBO's Permanent Full Time CSR's job classification is also predominantly female dominated. This Human Rights Tribunal application addresses matters related to the revised Pay Equity Plan required for OPSEU Employees, that LCBO and OPSEU are in the process of developing. The revised Pay Equity Plan may have a financial liability attached to it. LCBO is vigorously defending the Human Rights application, which proceeding is scheduled to commence in July 2015. At this point in time it is not possible to reasonably estimate the amounts, if any, that LCBO may have to make in the future regarding the Human Rights complaint, or the value of the liability, if any, that may be arise from the updated Pay Equity Plan.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2015 and 2014

(thousands of Canadian dollars)

14. Financial Risk Management

The nature of LCBO's operations means that it is exposed to a variety of financial risks, which includes market risk (primarily currency risk), credit risk and liquidity risk. LCBO's risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by LCBO in accordance with its investment and foreign exchange risk management policy. LCBO identifies, evaluates and mitigates financial risks.

a. Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. LCBO minimizes credit risk associated with the various instruments as follows:

- Derivative financial instruments and cash and cash equivalents are placed only with major Canadian chartered banks and Canadian subsidiaries of major banks. At March 31, 2015, all derivative instruments and cash and cash equivalents were held with major chartered banks and Canadian subsidiaries of major foreign banks.
- Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. LCBO does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2015, approximately 66% (2014 – 62%) of LCBO's receivable is due from one customer whose account is in good standing.
- Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 5 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that LCBO may not have cash available to satisfy financial liabilities as they fall due. LCBO seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it is able to satisfy financial liabilities as they fall due. Cash that is surplus to working capital requirements is managed by LCBO and invested in federal/provincial treasury bills, bankers' acceptances and bank term deposits, choosing maturities which are aligned with expected cash needs.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. Currently, LCBO is exposed only to currency risk.

d. Currency Risk

LCBO is exposed to currency risk with respect to future inventory purchases denominated in currencies other than the Canadian dollar, primarily US dollars and Euros. LCBO seeks to limit its exposure to currency risk by entering into Canadian dollar contracts on a majority of its inventory purchases. LCBO also limits its exposure to movements in exchange rates by acquiring foreign exchange contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

- In LCBO's assessment, a significant strengthening or weakening of the Canadian dollar against the US dollar or Euro, with all other variables held constant, would not have a significant impact on net income.

- The overall effects of changes in exchange rates was a foreign exchange gain of $3.6M in 2015 (2014 - $0.6 million loss).

15. Financial Instruments

a. Foreign Exchange Contracts

LCBO uses foreign exchange contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. These derivative financial instruments are measured at fair value. As at March 31, 2015, LCBO has twenty five foreign exchange contracts totaling $6.2 million (2014 - nil). The fair value is determined by the foreign exchange spot rate at the end of the reporting period.

b. Embedded Derivative

Embedded derivatives arise from the purchase of inventory in a currency other than Canadian dollar or that of the supplier's domestic or local currency. For the year ended March 31, 2015, LCBO reviewed these contracts and determined that it does not have significant embedded derivatives or gains or losses resulting from these derivatives that require separate accounting and disclosure (2014 - nil).

16. Capital Management

LCBO is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained earnings. LCBO's main objectives when managing its capital are:

- to ensure sufficient liquidity in support of its financial obligations to achieve its business plans;
- to maintain healthy liquidity reserves and access to capital as outlined in its investment and foreign exchange policies;
- to ensure that cash management decisions are based upon the preservation of capital as a primary objective; and
- to safeguard LCBO's ability to remain as a self-sufficient going concern entity in order to provide continuous dividends to the Province.

As at March 31, 2015 LCBO met these objectives.

In managing cash and cash equivalents, LCBO maintains balances that are:

- sufficient to meet its accounts payable obligations due within the next 45-60 days;
- sufficient to meet the timing of dividend transfers; and
- sufficient to meet approved capital expenditures throughout the current period.

LCBO is not subject to any externally imposed capital requirements.

17. Revenue

Virtually all revenue is from the sale of goods.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2015 and 2014

(thousands of Canadian dollars)

18. Selling, General and Administrative Expenses by Nature

The components of selling, general and administration expenses include the following:

	March 31, 2015	March 31, 2014
Employee costs (Note 19)	440,864	446,244
Occupancy costs	169,109	157,429
Depreciation and amortization	61,664	54,897
Debit/credit charges	37,437	34,823
Environmental initiatives	39,959	37,109
Other	86,368	85,629
	835,401	816,131

19. Employee Costs

Employee costs for LCBO for the year ended amounts to the following:

	March 31, 2015	March 31, 2014
Salaries & wages	355,670	356,136
Short-term employee benefits	85,194	90,108
	440,864	446,244

20. Finance Income and Finance Costs

Finance income and costs recognized by LCBO for the year ended amounts to the following:

	March 31, 2015	March 31, 2014
Finance income		
Interest earned	1,709	1,993
Total finance income	1,709	1,993
Finance costs		
Interest on non-pension employee benefits	4,762	4,702
Financing charges on capital leases	119	6
Total finance costs	4,881	4,708

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2015 and 2014

(thousands of Canadian dollars)

21. Related Parties

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of LCBO. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including director's fees comprise of:

	March 31, 2015	March 31, 2014
Salaries and short-term employee benefits	4,282	4,077
Post employment benefits	260	247
Other long term benefits	73	69
Termination benefits	26	112
	4,641	4,505

22. Waste Diversion

LCBO is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2015, LCBO contributed $1.9 million (2014 - $1.7 million) and these expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

23. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through LCBO and Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. Effective, February 6, 2012, the Province entered into another agreement with Brewers Retail Inc. for management of the program, thereby extending the program for another period of five years.

Under the program, LCBO collects a deposit of 10 or 20 cents on wine, liquor and most beer containers. LCBO reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2015, LCBO collected $63.3 million (2014 – $61.4 million) of deposits on containers and was invoiced $50.2 million (2014 - $48.1 million) for refunds to the customers. The net amounts are included in trade and other payables in the Statement of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2015, amounted to $38.0 million (2014 - $35.4 million), inclusive of $4.4 million (2014 – $4.1 million) of harmonized sales tax which is unrecoverable by LCBO, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statement of income and comprehensive income.

LCBO's experience indicates that not all container deposits are redeemed. Based upon its redemption data, part of the container deposits collected would not be redeemed. Based on historical redemption patterns, for the year ended March 31, 2015, LCBO estimated an 80% redemption rate for the program. Accordingly, for the year ended March 31, 2015, LCBO applied $12.6 million (2014 - $23.5 million) of unredeemed deposits as an increase to other income.

24. The Beer Store (TBS) common product deposit return program

LCBO participates in a separate deposit-refund system, TBS common product program, managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. The TBS program is not mandated by government regulations; however, the TBS program is a requirement in dealing with Brewers Retail Inc. Under the TBS common product program, products must be available in both the LCBO and TBS or have industry standard bottles (ISB).

LCBO purchases TBS common products from various suppliers including domestic from TBS, and included in the payment to these suppliers is the product cost and the container deposit. The LCBO then sells the TBS common products to customers including sales of imported beer to TBS, and the container deposit is collected back from customers.

TBS common product program deposits paid and collected are offset and included in trade and other receivables in the Statement of financial position.

For the year ended March 31, 2015, $2.2 million (2014 – $2.0 million) is included in trade and other receivables related to the TBS common product deposits.

25. Other Matters

In April 2014, the Province established an Advisory Council on Government Assets to review Hydro One, Ontario Power Generation and the LCBO and find ways to maximize their asset value. In November 2014, the panel presented an Initial Report to Government entitled "Retain and Gain: Making Ontario's Assets Work Better for Taxpayers and Consumers".

The initial report contained an overall assessment of the beverage alcohol and electricity sectors in Ontario and insight into the future direction for these sectors.

Following the submission of the Initial report, the Province expanded the mandate and requested the Advisory Council to move into a second phase of the beverage alcohol review. The Council's report "Striking the Right Balance: Modernizing Beer Retailing and Distribution in Ontario" was issued on April 16, 2015. As part of the 2015 Ontario Budget, the Province will be acting on the Council's recommendations including opening sales of beer to up to 450 grocery stores over a 10 year period. The Council will examine wine and spirit retailing and work with the LCBO on enhancing our pricing and mark-up strategies in the future.

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgements and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The VP, Audit Services, responsible for Internal Audit, reports directly to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

Stephen Rigby
President and Chief Executive Officer

Preet Dhindsa
Executive Vice President,
Chief Administrative Officer
& Chief Financial Officer

June 25, 2015

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and
Gaming Corporation and the Minister of Finance of Ontario

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2015 and March 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2015 and March 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2015 and March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

June 25, 2015
Toronto, Canada

KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Ontario Lottery and Gaming Corporation

Consolidated Statements of Financial Position
As at March 31, 2015 and 2014
(in thousands of dollars)

	Notes		March 31, 2015		March 31, 2014
Assets					
Current assets					
Cash and cash equivalents		$	318,340	$	311,880
Trade and other receivables	6		103,537		96,242
Prepaid expenses			40,946		38,637
Inventories	7		29,474		24,542
Total current assets			492,397		471,301
Non-current assets					
Restricted cash	8		190,763		175,996
Property, plant and equipment	9		1,284,383		1,328,231
Goodwill			1,776		1,776
Total non-current assets			1,476,922		1,506,003
Total assets		$	1,969,319	$	1,977,304
Liabilities and Equity					
Current liabilities					
Trade and other payables	10	$	322,701	$	292,383
Provisions	11		8,293		7,936
Due to operators	16		34,729		38,575
Due to Rama First Nation	16		2,005		1,872
Due to the Government of Canada	18		18,754		15,730
Deferred revenues			14,091		8,666
Current portion of long-term debt	20		18,257		15,278
Total current liabilities			412,890		380,430
Non-current liabilities					
Long-term debt	20		67,366		68,796
Employee benefits	22		18,882		14,070
Total non-current liabilities			86,248		82,866
Total liabilities			499,138		463,296
Equity					
Retained earnings			1,282,147		1,313,243
Contributed surplus			62,345		62,345
Reserves	8		125,689		138,420
Total equity			1,470,181		1,514,008
Total liabilities and equity		$	1,969,319	$	1,977,304

Related party transactions (Note 14)
Commitments (Notes 15,16,20 and 23)
Contingencies (Note 24)
Subsequent events (Notes 2 and 4.f(iii))

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board

Philip Olsson, Chair

Lori O'Neill, Director

Ontario Lottery and Gaming Corporation

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2015 and 2014
(in thousands of dollars)

	Notes	March 31, 2015	March 31, 2014
Revenues			
Lottery	5	$ 3,272,789	$ 3,307,871
Charitable gaming		114,879	73,817
Resort casinos		1,298,730	1,244,946
OLG slots and casinos		2,000,849	1,954,044
		6,646,208	6,580,678
Expenses			
Lottery		2,436,226	2,002,832
Charitable gaming		146,334	108,042
Resort casinos		1,399,039	1,350,102
OLG slots and casinos		971,771	984,112
		4,907,160	4,831,388
Income before the undernoted		1,737,048	1,738,880
Other income		47,440	48,389
Finance income	13	2,838	3,129
Finance costs	13	(5,381)	(5,856)
Foreign exchange gain	21.e	9,308	8,707
Other charges	19	(25,109)	(27,429)
Net income and comprehensive income		$ 1,762,888	$ 1,765,820

Segmented information (Note 25)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Consolidated Statements of Changes in Equity
For the years ended March 31, 2015 and 2014
(in thousands of dollars)

		Retained earnings		Contributed surplus	Capital renewals reserves		Operating reserves		Severance reserves		Total
Balance at March 31, 2013	$	1,371,700	$	62,345	59,908	$	54,987	$	44,798	$	1,594,337
Net income and comprehensive income		1,700,959		-	-		-		-		1,700,959
Contributions or distributions											
Transfers from reserves		11,693		-	(11,477)		(800)		584		-
Payments to the Province of Ontario		(1,831,279)		-	-		-		-		(1,831,279)
Balance at March 31, 2014	$	1,313,343	$	62,345	30,431	$	53,087	$	45,382	$	1,514,488
Net income and comprehensive income		1,752,099		-	-		-		-		1,752,099
Contributions or distributions											
Transfers from reserves		12,731		-	(13,402)		(219)		592		-
Payments to the Province of Ontario		(1,795,013)		-	-		-		-		(1,795,013)
Balance at March 31, 2015	$	1,282,547	$	62,345	26,979	$	53,916	$	45,794	$	1,478,189

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statements of Cash Flows

For the years ended March 31, 2015 and 2014

(in thousands of dollars)

	Notes		March 31, 2015		March 31, 2014
Cash flows from operating activities					
Net income and comprehensive income		$	1 752 888	$	1 769 493
Adjustments to reconcile profit for the period to net cash from operating activities:					
Amortization	8		151 165		167 230
Loss on disposal of property, plant and equipment	8		751		2 502
Net finance costs			2 516		2 797
Impairment loss on property, plant and equipment	8		16 428		27 626
Other long-term employee benefits	22 a		6 612		(571)
Operating cash flows before change in non-cash working capital			1 942 779		1 993 495
Change in non-cash working capital items:					
(Increase) decrease in trade and other receivables			(7 387)		11 752
(Increase) in prepaid expenses			(1 118)		(10 826)
(Increase) decrease in inventories			(832)		1 007
Increase (decrease) in trade and other payables			24 008		(62 954)
(Decrease) in provisions			(2 372)		(4 499)
(Decrease) in due to operators			(3 849)		(7 341)
Increase (decrease) in due to Rama First Nation			33		(220)
Increase (decrease) in due to the Government of Canada			16		(2 216)
Increase (decrease) in deferred revenues			8 208		(793)
Net cash from operating activities			1 959 876		1 918 376
Cash flows used in investing activities					
Interest received			2 839		3 169
Capital expenditures			(134 058)		(151 209)
Proceeds on disposal of property, plant and equipment			1 408		612
(Increase) decrease in restricted cash			(4 897)		66 976
Net cash used in investing activities			(134 708)		(80 452)
Cash flows used in financing activities					
Interest paid			(3 301)		(3 890)
Increase in long-term debt			7 503		-
Repayments of long-term debt			(15 823)		(56 146)
Payments to the Province of Ontario			(1 768 613)		(1 831 270)
Net cash used in financing activities			(1 780 534)		(1 891 306)
Increase (decrease) in cash and cash equivalents			4 633		(53 310)
Cash and cash equivalents, beginning of year			511 655		577 285
Cash and cash equivalents, end of year		$	516 288	$	511 655
Supplemental disclosure relating to non-cash financing and investing activities:					
Acquisition of property, plant and equipment through finance leases		$	5 112	$	6 033
Acquisition of property, plant and equipment not yet paid for		$	11 539	$	3 379

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

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1. Reporting entity

Ontario Lottery and Gaming Corporation ("OLG" or "the Corporation") was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is classified as an Operational Enterprise Agency of the Ontario government and is responsible for conducting and managing lottery games, Charitable Gaming ("cGaming"), Internet Gaming ("iGaming"), five Casinos and the Great Blue Heron Slot Machine Facility, 14 slot operations at racetracks and four Resort Casinos (Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort ("Fallsview") in the Province of Ontario.

The Corporation has entered into operating agreements with GTECH Sweden Interactive AB, Caesars Entertainment Windsor Limited ("CEWL"), CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of iGaming, Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort ("Fallsview") and the Great Blue Heron Slot Machine Facility, respectively.

The Corporation's head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 500, Toronto, Ontario, M2P 2B8

These Consolidated Financial Statements were authorized for issue by the Board of Directors of the Corporation on June 25, 2015.

2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, the Minister of Finance accepted a report from OLG entitled *Modernizing Lottery and Gaming in Ontario: Strategic Business Review / Advice to Government*. This report was the culmination of an evidence-based strategic business review that examined the state of the Corporation's current operations in the context of a changing market. The report included three recommendations for how the Corporation could achieve greater sustainability and increase Net Profit to the Province (Note 25 a):

1) Become more customer-focused;
2) Expand regulated private sector delivery of lottery and gaming; and
3) Renew OLG's role in oversight of lottery and gaming.

The Government of Ontario gave the Corporation approval to move forward with all three of these recommendations, and the Corporation embarked on a series of initiatives to support the modernization of its operations. These initiatives include:

- The leveraging of private sector expertise in the day-to-day operation of both the lottery network and gaming sites;
- The introduction of a new, streamlined Customer Management System and business-wide Gaming Management System;
- The launch of a new iGaming business line; and
- The revitalization of charitable gaming through the introduction of new electronic gaming at bingo halls.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
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2. Modernizing Lottery and Gaming in Ontario (continued)

In addition, as a result of the Government of Ontario's announcement to end the Slots at Racetracks Program, and in order to continue to conduct and manage its slot machine operations beyond the March 31, 2013 expiration of the program, the Corporation entered into lease agreements or agreements in principle with all 14 racetrack facilities. As of March 31, 2015, OLG has signed lease agreements with site holders for seven of its slot machine facilities. Of the seven lease agreements in place, four are in effect until March 31, 2018 and three are in effect until March 31, 2019. The remaining seven sites continue on a month-to-month basis in accordance with their short-term binding agreements. Subsequent to March 31, 2015, OLG had signed a lease agreement with one of the seven facilities that were in a short-term binding agreement mentioned above for a term of six years with a retroactive commencement date of April 1, 2013.

OLG is also integrating horse racing into the provincial gaming strategy by working with the Ontario government and horse racing stakeholders to help create a sustainable industry. This integration includes leveraging OLG's marketing and business expertise, advertising and cross-promoting with racetracks, providing Responsible Gambling knowledge and examining options for new horse-themed products to help increase the profile of horse racing.

As of the date of these Consolidated Financial Statements, OLG is in various stages in the formal strategic procurement process to obtain lottery and land-based gaming service providers. OLG's procurement process includes: Request for Information ("RFI"), Request for Pre-Qualification ("RFPQ") and Request for Proposal ("RFP"). OLG initiated the RFP process for Lottery as well as for the East Gaming Bundle, comprising OLG Casino Thousand Islands, OLG Slots Kawartha Downs and the potential for a new build in the area of Belleville. OLG is currently evaluating RFPQs for service providers interested in providing land-based gaming services in the other gaming bundles, with the exception of the Greater Toronto Area bundle, whose RFPQ submission deadline has been extended to August 27, 2015. At the end of this RFPQ process, pre-qualified service providers will be able to participate in the RFP process. The Corporation expects the procurement process for lottery and gaming to continue throughout the 2015–16 fiscal year and beyond.

3. Basis of preparation

a. Statement of compliance

These Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary, Ontario Gaming Assets Corporation and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b. Basis of measurement

These Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4.j).

c. Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency, the currency of the primary economic environment in which the Corporation operates. All financial information is presented in Canadian dollars.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

3. Basis of preparation (continued)

d. Use of estimates and judgments

The preparation of these Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

- Lease classification (Note 4.o)
- Accounting for an arrangement containing a lease (Note 4.t)

Areas of significant estimation and uncertainty that have a significant effect on the amounts recognized in the Consolidated Financial Statements, and could result in a material adjustment within the next fiscal year, are discussed in the following notes:

- Property, plant and equipment useful lives and residual values (Note 4.l)
- Recoverability of property, plant and equipment (Note 9)
- Provisions (Note 11)
- Amounts due to the Government of Canada (Note 18)
- Valuation of financial instruments (Note 21)
- Employee benefit liabilities (Note 22)
- Contingencies (Note 24)

4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the Consolidated Financial Statements as at and for the years ended March 31, 2015 and March 31, 2014.

a. Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and the wholly owned subsidiary which it controls. Control is achieved where the Corporation has the power to direct the relevant activities of an entity so as to obtain benefits from its activities. These Consolidated Financial Statements include the financial positions and results of operations of Caesars Windsor, Casino Rama, Casino Niagara and Fallsview (collectively, "Resort Casinos").

The assets, liabilities and operations of the Great Blue Heron Slot Machine Facility are also included in these Consolidated Financial Statements. These operating results are included with the results of OLG Slots and Casinos. These Consolidated Financial Statements do not include other operations carried out at the Great Blue Heron Charity Casino, which OLG does not own and over which OLG maintains no authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the Corporation's functional currency at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are translated at historical exchange rates at the date of the transaction. Transactions in foreign currencies are translated into the Corporation's functional currency using the exchange rates at the date of the transactions. The Consolidated Statements of Comprehensive Income items are translated at the rate of exchange in effect at the transaction date. Foreign currency transaction gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise. The Corporation does not have any foreign operations.

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

(i) Lottery

Lottery products are sold to the public by contracted lottery retailers, with LOTTOMAX, LOTTO 6/49 and ENCORE products also available for purchase over the Internet at PlayOLG.ca. Revenue from tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from Sports wagering games is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

(ii) cGaming

cGaming products are sold to the public by Charitable Gaming Centre service providers and not-for-profit foundations. Revenue from paper break open tickets ("BOT") is recognized when the ticket is sold to the customer. For all other cGaming products, revenue is recognized in the same period the game is played, net of prizes paid.

(iii) Slot and table games

Gaming revenue includes revenue earned from slot and table game operations at OLG Slots and Casinos facilities and Resort Casinos, as well as from casino-style games available at PlayOLG.ca. This is recognized in the same period the game is played, net of prizes paid. Gaming revenue is recorded net of the change in accrued jackpot liabilities and liabilities under customer loyalty incentive programs.

(iv) Non-gaming revenue

Non-gaming revenue includes revenue from accommodations, food and beverage, entertainment centres and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to customers on a complimentary basis. Non-gaming revenue is recorded at the retail value and is recognized as goods are delivered and services performed.

4. Significant accounting policies (continued)

d. Customer loyalty incentive programs

The Corporation has customer loyalty incentive programs whereby customers have the choice to receive free or discounted goods and services, and in many cases, the right to receive cash. These customer loyalty incentive programs at the Resort Casinos, Great Blue Heron Slot Machine Facility and OLG Slots and Casinos allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The customer's point balance will be forfeited if the customer does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue, as determined by the fair value of the undelivered goods and services related to the customer loyalty award, is deferred until the award is provided or expires.

e. Lottery and Charitable Gaming prizes

Prize expense for Lottery and certain cGaming products is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to customers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs and is based on actual prize liability.
- Prize expense for INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets, and is based on the prize structure.
- Prize expense for Sports wagering games is recognized when the last wagered event occurs and is based on actual prize liability.
- Prize expense for cGaming paper BOT is recognized when the ticket is sold to the customer and is based on actual prize liability.
- Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party.

Prize expense is adjusted on a monthly basis to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on National Lotto games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on Regional Lotto games are returned to the Province of Ontario through distributions to the Province. Unclaimed prizes are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense. National Lotto games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while Regional Lotto games are administered by the Corporation and sold only in Ontario.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

f. Commissions and bonuses

Commissions and bonuses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

(i) Lottery

Lottery retailers receive a commission of eight per cent on all INSTANT tickets and a commission of five per cent on all Lotto tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, the commission amount is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers receive a three per cent commission on INSTANT ticket redemptions and a two per cent commission on Lotto ticket redemptions. A bonus of up to $1,500 is paid to any retailer who sells a major prize-winning Lotto or INSTANT ticket, excluding Sports and daily games. Commission amounts that are paid to a retailer for selling a major prize are recorded as an expense when the ticket is redeemed.

(ii) cGaming

Charitable Gaming Centre service providers receive a commission based on percentages of net win (gaming revenue net of prizes paid) or adjusted net win (net win after the payment of applicable marketing expenses).

Charities and not-for-profit agencies receive a commission based on percentages of net win, adjusted net win or non-gaming revenue.

(iii) Site holders

Effective April 1, 2013, the Corporation entered into short-term binding agreements with 14 racetrack facilities on what was effectively a periodic basis (e.g., month-to-month term) to enable the Corporation to continue to conduct and manage its slot machine operations beyond the March 31, 2013 expiration date of the Slots at Racetracks program. As of March 31, 2015, seven of these racetrack facilities remain in such short-term lease arrangements, while the other seven facilities have entered into agreements for terms of five years or longer. The agreements have been recognized as leases as disclosed in Note 4.t. The lease payments are recognized in facilities expenses in Note 25.

Subsequent to March 31, 2015, the Corporation entered into a lease agreement with one of the seven facilities that were in a short-term binding agreement mentioned above for a term of six years with a retroactive commencement date of April 1, 2013.

(iv) Municipalities

Municipalities that host an OLG Casino or a Slots at Racetracks facility, including the City of Niagara Falls and the City of Windsor, receive the following commissions as defined in the Municipal Contribution Agreement:

i. 5.25 per cent on the first $65 million of annual Electronic Games Revenue; plus
ii. 3.00 per cent on the next $135 million of annual Electronic Games Revenue; plus
iii. 2.50 per cent on the next $300 million of annual Electronic Games Revenue; plus
iv. 0.50 per cent on the remainder of annual Electronic Games Revenue; plus
v. 4.00 per cent on Live Table Game Revenue, where applicable.

4. Significant accounting policies (continued)

f. Commissions and bonuses (continued)

(iv) Municipalities (continued)

Municipalities that host Charitable Gaming Centres receive a commission based on either a percentage of non-gaming revenue and net win or a percentage of adjusted net win, as defined in the Charitable Gaming Centre Municipality Agreements.

(v) Mississaugas of Scugog Island First Nation

As the host community of the Great Blue Heron Slot Machine Facility, the Mississaugas of Scugog Island First Nation receives five per cent of Gross Revenues, as defined, from the slot machines. The Mississaugas of Scugog Island First Nation will continue to receive an amount equal to five per cent of the Gross Revenues, as defined, of the slots at the Great Blue Heron Slot Machine Facility on a month-to-month basis, for up to a maximum period of 24 months from June 28, 2015, which was the expiration date of the previous extension period.

g. Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

h. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for impairment. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

Trade and other receivables represent lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are cGaming proceeds due from Charitable Gaming Centre service providers for cGaming sales net of commissions and prizes paid and amounts due from customers of Resort Casinos.

Collectibility of trade receivables is reviewed on an ongoing basis. Accounts which are known to be uncollectible are written off. An allowance for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, not including future credit losses, discounted at the original effective interest rate. The amount of the provision is recognized in the Consolidated Statements of Comprehensive Income.

i. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Inventories consist of finished goods including slot machine and table game parts, security and surveillance parts, lottery and charitable gaming tickets and paper, food and beverage inventory and retail inventory.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

j. Financial instruments

(i) Non-derivative financial assets

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation does not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized as incurred in the Consolidated Statements of Comprehensive Income. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in the Consolidated Statements of Comprehensive Income.

The Corporation classified all cash and cash equivalents and restricted cash as financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of trade and other receivables.

(ii) Non-derivative financial liabilities

The Corporation has the following non-derivative financial liabilities: trade and other payables, provisions, due to operators, due to Rama First Nation, due to the Government of Canada and long-term debt.

The Corporation initially recognizes financial liabilities issued on the date that they originated. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

4. Significant accounting policies (continued)

j. Financial instruments (continued)

(ii) Non-derivative financial liabilities (continued)

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Corporation has no non-derivative liabilities classified at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

k. Restricted cash

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and also includes prize funds on deposit and unused proceeds received from term loans.

l. Property, plant and equipment

(i) Recognition and measurement

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in the Consolidated Statements of Comprehensive Income.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized as incurred in the Consolidated Statements of Comprehensive Income.

(iii) Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the term of the lease.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 10 years
OLG Slots and Casinos and Resort Casinos gaming assets	2 to 10 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each fiscal year end and adjusted if appropriate.

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

m. Goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the exchange date) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized as incurred in the Consolidated Statements of Comprehensive Income.

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the "acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's cash generating units ("CGU") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. Absent any triggering factors during the year, the Corporation conducts its goodwill impairment test in the fourth quarter of the year. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated to the unit to reduce the carrying amount of any goodwill allocated to it and then allocated pro rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Goodwill is measured at cost less accumulated impairment losses and has an indefinite useful life.

n. Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the Consolidated Statements of Comprehensive Income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the Consolidated Statements of Comprehensive Income.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

n. Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets. Subject to a operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Consolidated Statements of Comprehensive Income. Impairment losses recognized in respect of CGUs are first allocated to reduce the carrying amount of any goodwill allocated to the units and then to reduce, on a pro rata basis, the carrying amounts of the other assets in the unit or group of units.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

o. Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On a lease-by-lease basis, the Corporation estimates whether substantially all of the risks and rewards of ownership are assumed, taking into account the length of the lease, the present value of the minimum lease payments compared to the fair value of the leased asset, and other terms contained within the lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Ontario Lottery and Gaming Corporation
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4. Significant accounting policies (continued)

o. Leased assets (continued)

Other leases are operating leases and the leased assets are not recognized in the Corporation's Consolidated Statements of Financial Position. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

q. Trade and other payables

These amounts represent liabilities for unpaid goods and services provided to the Corporation prior to the end of the financial year. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short term in nature.

r. Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimates.

(i) Legal claims

The Corporation recognizes obligations for the settlement of current legal claims against the Corporation. The provision is measured based on the best estimate of the expenditure required to settle the matter. Each claim is individually reviewed for the likelihood of settlement and the expected settlement amount.

(ii) Restructuring provisions

A provision for restructuring is recognized when the Corporation has a legal or constructive obligation at the reporting date, which results from a detailed and formal restructuring plan approved by the Corporation, and the restructuring either has commenced or has been announced to those affected by it. Restructuring costs include only the direct incremental expenditures arising from the restructuring, which are necessitated by the restructuring and not associated with the ongoing activities of the Corporation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

r. Provisions (continued)

(iii) Other provisions

The Corporation recognizes decommissioning obligations for the retirement of certain tangible property, plant and equipment, which result from the acquisition, construction, development and/or normal use of the assets. The provision is measured based on the net present value of Management's best estimate of the expenditures that will be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the estimated useful life. The increase to the provision resulting from unwinding the discount is recognized as a finance cost.

The provision is measured each period and subsequent changes in the provision are capitalized as part of the cost of the long-lived asset and amortized prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

The Corporation recognizes a provision for insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the amounts for each claim that settlement is probable or the amount of the deductible related to the claim.

The Corporation recognizes onerous provisions when the unavoidable costs of meeting the obligations of a contract exceed the economic benefits expected to be received by it. The provision is initially measured based on the net present value of Management's best estimate of the net obligations of the contract. Subsequent changes in the measurement amount are charged to the class of expense to which the contract relates.

s. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated Statements of Comprehensive Income in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan, which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees Union Pension Fund ("OPSEU Pension Fund"). The Corporation does not have a net obligation in respect of defined benefit pension plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province of Ontario controls all entities included in the pension plans. The Corporation has classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018
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6. Significant accounting policies (continued)

e. Employee benefits (continued)

(iii) Other long-term employee benefits

The Corporation's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, they are discounted to their present value.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be settled wholly within 12 months of the end of the reporting period if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

h. Lease payments

Payments made under operating leases are recognized in the Consolidated Statements of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Determining whether an arrangement contains a lease

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

(tabular amounts in thousands of Canadian dollars)

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4. Significant accounting policies (continued)

t. Lease payments (continued)

(i) Determining whether an arrangement contains a lease (continued)

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes that it is impracticable to separate the payments reliably under a finance lease, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

u. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. The Corporation ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. The Corporation suspends capitalization of borrowing costs during extended periods in which it has suspended active development of a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statements of Comprehensive Income in the period in which they are incurred.

v. Finance income and finance costs

Finance income consists of interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in the Consolidated Statements of Comprehensive Income using the effective interest method.

Finance costs consist of interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statements of Comprehensive Income using the effective interest method.

w. Segment reporting

A reportable segment is a significant component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The operating results of all reportable segments are reviewed regularly by the Corporation's Executive Leadership Team ("ELT"), consisting of the President and CEO and his direct reports, to make decisions about resources to be allocated to the segment and to assess the performance of the segment for which discrete financial information is available.

Ontario Lottery and Gaming Corporation
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4. Significant accounting policies (continued)

w. Segment reporting (continued)

Segment results that are reported to the chief operating decision-maker, the Corporation's ELT, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are comprised primarily of corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

x. Income taxes

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

y. Initial application of standards, interpretation and amendments

The following new or amended standards were required to be applied as of April 1, 2014 and were applied in preparing these Consolidated Financial Statements. The application of these standards did not have a material impact on the Consolidated Financial Statements.

(i) IFRIC 21, Levies ("IFRIC 21")

In May 2013, the International Accounting Standards Board ("IASB") issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of International Accounting Standards ("IAS") 27, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation, and it notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

(ii) IAS 32, Offsetting Financial Assets and Liabilities ("IAS 32")

In December 2011, the IASB published an amendment to IAS 32, Financial Instruments - Presentation. The amendment provides clarification on when an entity has a legally enforceable right to offset and when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

(iii) IAS 36, Recoverable Amount Disclosures for Non-Financial Assets ("IAS 36")

In May 2013, the IASB issued amendments to IAS 36, Impairment of Assets. The amendments reverse the unintended requirement in International Financial Reporting Standards ("IFRS") 13, Fair Value Measurement, to disclose the recoverable amount of every CGU to which significant goodwill or indefinite-life intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

Ontario Lottery and Gaming Corporation
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4. Significant accounting policies (continued)

z. Accounting standards issued but not yet effective

A number of new accounting standards and amendments to standards are not yet effective as at March 31, 2015, and have not been applied in preparing these Consolidated Financial Statements.

(i) Annual Improvements to IFRS (2010-2012) and (2011-2013)

In December 2013, the IASB issued narrow-scope amendments to nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

(ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, replacing IAS 11, Construction Contracts, IAS 18, Revenue, and IFRIC 13, Customer Loyalty Programmes. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. Newly introduced estimates and judgmental thresholds may affect the amount and/or timing of revenue recognized. IFRS 15 is mandatorily effective for annual periods beginning on or after January 1, 2017. The Corporation is assessing the impact of this new standard on its Consolidated Financial Statements.

(iii) IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the complete IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard provides guidance on the classification and measurement of financial assets and introduces a new expected credit loss model for calculating impairment. It also incorporates the final general hedge accounting requirements. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Corporation does not expect the new standard to have a material impact on its Consolidated Financial Statements.

(iv) Annual Improvements to IFRS (2012-2014)

In September 2014, the IASB issued narrow-scope amendments to four standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. The amendments will apply prospectively for annual periods beginning on or after January 1, 2016. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

(v) IAS 1, Presentation of Financial Statements, ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments relate to materiality, order of the notes, subtotals, accounting policies, and disaggregation. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect the amendments to have a material impact on its Consolidated Financial Statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management, including policies related to financial and risk management. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 21 for further details on the Corporation's financial risk management and financial instruments.

6. Trade and other receivables

	March 31, 2015	March 31, 2014
Trade receivables	$98,320	$90,309
Less: allowance for impairment	(4,210)	(3,890)
Trade receivables, net	94,110	86,419
Other receivables	9,527	9,823
Trade and other receivables	$103,637	$96,242

The Corporation's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 21.

7. Inventories

	March 31, 2015	March 31, 2014
Slot machine and table game parts	$3,930	$3,811
Lottery and charitable gaming tickets and paper	14,537	13,666
Security and surveillance parts	541	810
Food and beverage	3,137	3,102
Retail	506	422
Other	2,823	2,831
Inventories	$25,474	$24,642

Inventory costs, included in expenses, for the year ended March 31, 2015, were $102,410,000 (March 31, 2014 – $97,513,000). During fiscal 2014–15, the Corporation recorded inventory write-down reversals in expenses of $128,000 (March 31, 2014 – $416,000 of inventory write-down).

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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8. Restricted cash

Restricted cash, consisting of the following items and respective amounts, is held in separate bank accounts.

	March 31, 2015	March 31, 2014
Reserves (a)		
Capital renewals	$25,979	$39,431
Operating	53,916	53,697
Severance	45,794	45,292
	125,689	138,420
Less: unrestricted capital renewals and operating	-	(4,173)
Funded reserves balance	125,689	134,247
Prize funds on deposit (b)	46,547	39,615
Other (c)	8,527	2,044
Restricted cash	$180,763	$175,906

a. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

(i) Capital renewals reserves – for property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;

(ii) Operating reserves – to satisfy specified operating obligations in the event that cash flows will be insufficient to meet such obligations; and

(iii) Severance reserves – to satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

b. Prize funds on deposit of $46,547,000 (March 31, 2014 – $39,615,000) are funds set aside representing the estimate of gross prizes outstanding of $78,874,000 (March 31, 2014 – $70,979,000) less an estimate for prizes not expected to be claimed by customers of $32,327,000 (March 31, 2014 – $31,364,000).

c. Other restricted cash represents loan proceeds for the Gaming Management System and Internet Gaming site projects, funds held on behalf of Internet Gaming patrons and interest earned and received.

Ontario Lottery and Gaming Corporation
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9. Property, plant and equipment

Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2013	$137,824	$1,899,120	$598,627	$624,967	$84,587	$596,943	$53,659	$45,981	$4,041,708
Additions and assets put into use	-	3,106	34,232	13,493	93	54,027	6,837	(5,829)	105,959
Disposals and retirements	-	(1,016)	(46,861)	(5,116)	-	(51,254)	-	(760)	(105,007)
Balance at March 31, 2014	$137,824	$1,901,210	$585,998	$633,344	$84,680	$599,716	$60,496	$39,392	$4,042,660
Balance at April 1, 2014	$137,824	$1,901,210	$585,998	$633,344	$84,680	$599,716	$60,496	$39,392	$4,042,660
Additions and assets put into use	-	5,460	40,499	15,443	1,019	63,269	8,112	17,169	150,971
Disposals and retirements	-	(1,353)	(23,453)	(2,091)	-	(49,894)	-	-	(76,791)
Balance at March 31, 2015	$137,824	$1,905,317	$603,044	$646,696	$85,699	$613,091	$68,608	$56,561	$4,116,840

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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9. Property, plant and equipment (continued)

Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2013	$41,091	$1,024,857	$492,780	$516,632	$72,977	$435,513	$17,515	-	$2,601,365
Amortization for the period	-	51,035	34,480	14,856	6,043	76,011	4,805	-	187,230
Impairment loss	-	-	17,457	-	-	-	9,972	-	27,429
Disposal and retirements	-	(796)	(45,453)	(4,397)	-	(50,949)	-	-	(101,595)
Balance at March 31, 2014	$41,091	$1,075,096	$499,264	$527,091	$79,020	$460,575	$32,292	-	$2,714,429
Balance at April 1, 2014	$41,091	$1,075,096	$499,264	$527,091	$79,020	$460,575	$32,292	-	$2,714,429
Amortization for the period	-	42,067	32,906	17,572	4,595	63,209	2,836	-	163,185
Impairment loss	-	-	11,313	-	-	-	8,112	-	19,425
Disposal and retirements	-	(651)	(22,566)	(1,778)	-	(49,587)	-	-	(74,582)
Balance at March 31, 2015	$41,091	$1,116,512	$520,917	$542,885	$83,615	$474,197	$43,240	-	$2,822,457

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9. Property, plant and equipment (continued)

Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	OLG Slots and Casinos and Resort Casinos gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at March 31, 2014	$96,733	$826,114	$86,734	$106,253	$5,660	$139,141	$28,204	$39,392	$1,328,231
Balance at March 31, 2015	$96,733	$788,805	$82,127	$103,811	$2,084	$138,894	$25,368	$56,561	$1,294,383

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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9. Property, plant and equipment (continued)

The Corporation leases certain items of property, plant and equipment under finance lease agreements. The leases are structured in a manner that significant risks and rewards incidental to ownership of the leased assets have been assumed by OLG. At March 31, 2015, the net carrying amount of leased property, plant and equipment was $25,368,000 (March 31, 2014 – $28,204,000).

Capital expenditures by reportable segment

The Corporation made the following capital outlays to the respective reportable segments:

For the fiscal year	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
2014–15	$11,475	$19,425	$60,899	$59,172	$150,971
2013–14	$497	$18,830	$54,250	$32,382	$105,959

Impairment

As a result of lower than expected economic performance of the Charitable Gaming CGUs, made up of the individual Charitable Gaming Centres, Management performed an impairment analysis.

The recoverable amounts of the CGUs were based on fair value less costs of disposal, which is greater than the value in use. Management performed the fair value analysis utilizing discounted cash flows based on its best estimates and using the market information currently available. The value technique used Level 3 inputs which are unobservable inputs supported by little or no market activity for the assets (Note 21.f). Cash flow projections were based on annual approved budgets and Management's projections thereafter. The cash flows are Management's best estimate of future events taking into account past experience and future economic assumptions. A discount rate of seven per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGUs.

Management determined that the recoverable amount of the CGUs of $nil was less than their carrying value and, as a result, an impairment loss of $19,425,000 (fiscal 2013–14 – $27,429,000) was recognized in other charges in the Consolidated Statements of Comprehensive Income. The impairment loss relates to the cGaming reportable segment in Note 25.

Management did not identify any further impairment indicators at any of the Corporation's other CGUs and, therefore, has not recognized any additional impairment loss at March 31, 2015.

10. Trade and other payables

	March 31, 2015	March 31, 2014
Trade payables and accruals	$90,115	$78,812
Prizes payable	46,548	39,615
Short-term employee benefits	46,590	44,548
Gaming liability	62,397	65,832
Commissions payable	16,435	15,609
Site settlement accrual	16,970	783
Other payables and accruals	43,736	47,154
Trade and other payables	$322,791	$292,353

Prizes payable comprise unclaimed and estimated Lottery and cGaming prizes.

10. Trade and other payables (continued)

Short-term employee benefits include salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other short-term employee-related liabilities.

Gaming liability consists of progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips are funds deposited by customers before gaming play occurs for chips in the customer's possession. Customer loyalty incentive points that are earned based on the volume of play and redeemable for complimentary goods and services and/or cash are recognized as a liability and measured at the amount payable on demand.

Commissions payable include amounts payable to lottery retailers, Charitable Gaming Centre service providers and municipalities that host an OLG Casino or Slots at Racetracks facility or Charitable Gaming Centre.

Site settlement accrual consists of settlement costs payable to a site holder.

Other payables and accruals include accrued win contribution, casino customer deposits, security deposits and other amounts.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 21.

11. Provisions

All provisions are included in current liabilities. The carrying amount is as follows:

	Legal claims	Restructuring provision	Other provisions	Total
Balance at April 1, 2014	$2,386	$1,299	$3,950	$7,635
Increases and additional provisions	1,408	-	1,260	2,668
Amounts paid	(622)	(99)	(908)	(1,629)
Amounts reversed	(1,636)	(1,200)	(575)	(3,411)
Balance at March 31, 2015	$1,536	$ -	$3,727	$5,263

Legal claims

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position. During fiscal 2014–15, an additional $1,408,000 of potential legal claims was accrued, with an offsetting reduction of $622,000 due to payments to claimants. The $1,636,000 of legal claims reversed in fiscal 2014–15 was due to the likelihood of the obligations becoming remote. The ultimate outcome or actual cost of settlement may vary significantly from the original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote (Note 24).

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11. Provisions (continued)

Restructuring provision

During fiscal 2014–15, $99,000 of the accrued restructuring liabilities was paid and $1,200,000 of restructuring provisions was reversed as a site settlement accrual is now recorded in trade and other payables (Note 10).

The recognition of these restructuring charges requires Management to make certain judgments and estimates regarding the nature, timing and amounts associated with these restructuring plans. Adjustments to the recognized amounts may be required to reflect actual experience or changes in future estimates.

Other provisions

Other provisions include provisions for decommissioning obligations and insurance claims.

The Corporation recognized a discounted liability associated with decommissioning obligations arising from terms in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This provision is associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. During fiscal 2014–15, an additional $4,000 of decommissioning obligations was recorded.

The Corporation recognizes a provision relating to insurance claims that the Corporation's insurance provider has indicated are more than likely to be settled. The provision is measured based on the estimated amounts to be settled or actual deductible amounts for each claim that settlement is likely. During fiscal 2014–15, an additional $1,256,000 of insurance claims was accrued, $908,000 of claims was settled and $575,000 of accrued claims was reversed as it was no longer likely they would be incurred.

12. Personnel costs

Total personnel costs for the year ended March 31, 2015 amounted to $873,281,000 (March 31, 2014 – $873,289,000).

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13. Finance income and finance costs

	March 31, 2015	March 31, 2014
Interest income on financial assets at fair value through profit and loss and loans and receivables	$2,835	$3,109
Finance income	$2,835	$3,109
Interest on bank overdraft and loans	$(673)	$(1,334)
Interest on obligations under finance leases	(4,533)	(4,410)
Other interest expense	(145)	(122)
Total interest expense for financial liabilities not classified at fair value through profit and loss	(5,351)	(5,866)
Finance costs	$(5,351)	$(5,866)
Net finance costs recognized in net income and comprehensive income	$(2,516)	$(2,757)

14. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the Ontario Financing Authority ("OFA") (Note 20), post-employment benefit plans with the Ontario Pension Board (Note 22 b), and other long-term employee benefits with the Workplace Safety and Insurance Board (Note 22 c).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation

The Corporation's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation and consist of the Corporation's Board of Directors and the ELT.

Key management personnel compensation was comprised of the following:

	March 31, 2015	March 31, 2014
Short-term employee benefits	$4,830	$3,552
Post-employment benefits	250	233
	$5,080	$3,785

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include the employer's portion of pension and other post-retirement benefits.

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16. Due to operators

Under the terms of the development and operating agreements for each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, each operator is entitled to receive an operator's fee calculated as a percentage of Gross Revenue and as a percentage of Net Operating Margin, both as defined in each of the related development and operating agreements. The Resort Casinos, including Great Blue Heron Slot Machine Facility, and each of their respective operators are as follows:

- Casino Niagara and Fallsview are operated by Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3268533 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation.

  The development and operating agreement expires June 10, 2019, subject to earlier termination and an automatic extension for a further period of ten years unless OLG elects not to extend the term.

- Casino Rama is operated by CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.

  On August 1, 2011, OLG, CRC Holdings Inc., CHC Casinos Canada Limited and Casino Rama Services Inc. entered into an Interim Operating Agreement ("Interim Agreement") related to the continued operation of the complex. On June 26, 2014, the terms of the Interim Agreement were amended to further extend the term on a month-to-month basis starting October 1, 2014, for up to a maximum period of 24 months. In addition, OLG has two successive options to further extend the Interim Agreement for periods of 12 months each. From and after October 1, 2014, OLG is entitled to terminate the month-to-month arrangement at any time by providing two months' advance written notice to the operator.

- Caesars Windsor is operated by Caesars Entertainment Windsor Limited ("CEWL"), a wholly owned subsidiary of Caesars Entertainment Corporation.

  The development and operating agreement expires on July 31, 2020, subject to earlier termination.

- Great Blue Heron Slot Machine Facility is operated by Great Blue Heron Gaming Company, owned by CAI Ontario Inc. and others.

  The development and operating agreement, which was set to expire on June 28, 2013, was extended on a month-to-month basis for up to a maximum period of 24 months.

As at March 31, 2015, the amount due to operators was $34,729,000 (March 31, 2014 – $38,375,000).

At each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, the operator is the employer of the employees working at that facility. All payroll and payroll-related costs are charged to the Corporation on a monthly basis and expensed in the Corporation's Consolidated Statements of Comprehensive Income and included in amounts disclosed in Note 12.

Also included in the amounts due to operators are:

a) Niagara Falls

Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the operator is entitled to receive additional operator services fees and an Attractor fee. The Attractor fee, as defined, is calculated to allow for the amortization of the total capital contribution of the operator to external attractors of $30,000,000, including a convention centre and a people mover. As at March 31, 2015, the Attractor fee accrual included in due to operators was $3,117,000 (March 31, 2014 – $3,823,000). The Corporation's remaining commitment as at March 31, 2015 is $11,861,000.

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18. Due to operators (continued)

b) Caesars Windsor

Under the terms of a trade-mark licence agreement for the rebranding of Caesars Windsor, the Corporation pays a licence fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trade-mark licence agreement with a wholly owned indirect subsidiary of CEWL will terminate on July 31, 2020 or on such earlier date as CEWL or its subsidiary ceases to be the operator of Caesars Windsor. As at March 31, 2015, the amount included in due to operator in respect of the trade-mark licence agreement was $282,000 (March 31, 2014 – $288,000).

19. Due to Rama First Nation

a. Casino Rama is located on reserve lands of Rama First Nation under the authority of a 25-year sublease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of Rama First Nation. The lands are leased by Casino Rama Inc. from Her Majesty the Queen in Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenue of the Casino Rama Complex to Rama First Nation in accordance with instructions from Aboriginal Affairs and Northern Development Canada as representative for Her Majesty the Queen. During the year, $4,843,000 was expensed (March 31, 2014 – $4,888,000) and included in facilities expense in Note 25.

b. The terms of various permits provide for parking and pedestrian access to the Casino Rama Complex at an annual rent payable of approximately $1,700,000, adjusted for inflation. The lands are permitted by Her Majesty the Queen to Rama and are currently in use at Casino Rama for parking and pedestrian access. During the year, $2,218,000 was expensed under permits (March 31, 2014 – $2,183,000) and included in facilities expense in Note 25.

c. On January 28, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement dated July 17, 2009, relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the "Post-2011 Contract"). The contract was amended in June 2014. The key terms of the amended Post-2011 Contract, relevant to the Corporation, are as follows:

(i) The term of the Post-2011 Contract continues until July 31, 2031, subject to earlier termination or the exercise by the Corporation in its sole discretion of two successive options to extend the Post-2011 Contract for periods of ten years and five years, respectively. The Post-2011 Contract shall terminate on March 18, 2021 if Rama First Nation and Casino Rama Inc. do not replace the existing surrenders and permits with a new surrender or establish a land management regime on or before December 31, 2015.

(ii) Rama First Nation shall be entitled to receive an annual fee for each successive twelve-month period commencing August 1, 2011 in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Casino Rama Complex, as defined, and $5,500,000.

(iii) The Corporation agreed to contribute $2,000,000 towards the capital cost of renovating the existing administration building.

(iv) The Corporation agreed to construct a four-acre on-site employee parking lot.

During the year, $7,182,000 was expensed in connection with the Post-2011 Contract (March 31, 2014 – $7,394,000) and included in facilities expense in Note 25. As at March 31, 2015, $819,000 (March 31, 2014 – $580,000) was due to Rama First Nation.

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16. Due to Rama First Nation (continued)

d. In connection with the Post-2011 Contract, amended in June 2014, Rama First Nation and the Corporation entered into agreements relating to the provision of fire protection and policing services for the Casino Rama Complex for a term commencing on August 1, 2011 and terminating on July 31, 2031, unless otherwise extended.

Payments made to Rama First Nation in connection with fire protection and policing services, snow removal services and water and sewer services amounted to $7,151,000 in fiscal 2014–15 (fiscal 2013–14 – $7,137,000). These payments were included in general and administration expenses in Note 25. At March 31, 2015, $906,000 (March 31, 2014 – $1,285,000) was due to Rama First Nation.

e. Pursuant to the terms of the amended Post-2011 Contract, a company related to Rama First Nation and the Corporation agreed to enter into a lease for the rental of office space for a term commencing on August 1, 2011 and terminating on July 31, 2019. An amount of $757,000 was expensed in fiscal 2014–15 (fiscal 2013–14 – $745,000) and is included in general and administration expenses in Note 25.

Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation entered into a lease for warehouse space for a term commencing on August 1, 2011 and terminating on March 13, 2021 (subject to extension of the Post-2011 Contract). An amount of $383,000 was expensed in fiscal 2014–15 (fiscal 2013–14 – $375,000) and is included in general and administration expenses in Note 25.

f. During fiscal 2014–15, $377,000 (fiscal 2013–14 – $308,000) was paid to Rama First Nation to pay contractors involved in the acquisition of leasehold improvements. At March 31, 2015, $480,000 (March 31, 2014 – $107,000) was due to Rama First Nation.

g. The Corporation and Rama First Nation executed a letter of intent as of September 7, 2011, as amended and restated by an amended and restated letter of intent executed as of May 31, 2012 (collectively, the "Letter of Intent") which set out, among other things, the principal terms and conditions with respect to the planning and proposed construction, development and location of the employee parking lot. During fiscal 2014–15, $84,000 (fiscal 2013–14 – $nil) was paid out of the capital reserve account to Rama First Nation under the Letter of Intent.

In connection with the Post-2011 Contract, the Corporation and Casino Rama Inc. entered into an Employee Parking Lot Licence dated May 31, 2012, which terminates concurrently with the termination of the Post-2011 Contract (unless the permit underlying the licensed lands is terminated earlier in accordance with its terms). During fiscal 2014–15, $511,000 (fiscal 2013–14 – $505,000) was paid to Casino Rama Inc. under the Employee Parking Lot Licence.

17. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*, which amounted to $246,934,000 for fiscal 2014–15 (fiscal 2013–14 – $245,461,000) and was recorded as an operating expense.

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18. Due to the Government of Canada

As at March 31, 2015, the amount due to the Government of Canada was $15,754,000 (March 31, 2014 – $15,735,000). The recognition of this obligation requires Management to make certain estimates regarding the nature, timing and amounts associated with the Due to the Government of Canada.

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax / Harmonized Sales Tax ("GST/HST")

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated similarly as it is for any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada.

The net tax attributable to gaming activities results in a 26 per cent tax burden on most taxable gaming expenditures incurred by the Corporation.

19. Other charges

	March 31, 2015	March 31, 2014
Site settlement (a)	$15,770	$ -
Impairment charge (b)	19,425	27,429
Other charges	$35,195	$27,429

a. Site settlement

The Corporation incurred site settlement costs of $15,770,000 for the year ended March 31, 2015 (March 31, 2014 - $nil) in relation to reaching a settlement with a site holder. All costs incurred will be paid to the site holder in fiscal 2015-16. This amount is included in trade and other payables in Note 10.

b. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2015 of $19,425,000 (March 31, 2014 - $27,429,000), as disclosed in Note 9.

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20. Long-term debt

	March 31, 2015	March 31, 2014
Woodbine loan (a)	$22,173	$32,279
Gaming Management System loan (b)	5,720	-
Internet Gaming loan (c)	1,850	-
Obligations under finance leases (d)	55,880	51,792
	85,623	84,071
Less: current portion	(18,257)	(15,275)
Long-term Debt	$67,366	$68,796

On June 1, 2012, the Province of Ontario amended the *Ontario Lottery and Gaming Corporation Act, 1999* to require the Corporation to finance certain capital expenditures with debt obtained from the OFA. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

a. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the OFA for purposes of financing the renovation and expansion (in two phases, Phase A and Phase B), of the slots facility at Woodbine Racetrack.

Phase A construction was completed and the related construction loan was converted to a term loan in May 2011. The initial loan balance for Phase A of $31,269,000, plus interest was repayable over five years in equal monthly payments of $560,904 until fiscal 2014–15 when the equal monthly payment changed to $384,913 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.931 per cent per annum and is unsecured.

Phase B construction was completed and the related construction loan was converted to a term loan in January 2013. The initial loan balance for Phase B of $33,802,000, plus interest was repayable over five years in equal monthly payments of $597,222 until fiscal 2014–15 when the equal monthly payment changed to $514,690 due to a lump sum payment made in fiscal 2013–14. The loan bears interest at a rate of 2.32 per cent per annum and is unsecured.

b. Gaming Management System

In July 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to $35,200,000 to finance the implementation of its Gaming Management System replacement program. This program will replace infrastructure that tracks and records gaming activity and accounting, as well as data and security events at all of the slot machines. During fiscal 2014–15, the Corporation drew $5,700,000 on the facility which is repayable, inclusive of interest accrued, at the earlier of the project completion date or September 2016. The loan bears interest at the rate of the OFA's cost of funds as of each facility advance date plus 0.325 percent per annum, compounded quarterly. The loan is unsecured.

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20. Long-term debt (continued)

c. Internet Gaming

In August 2014, the Corporation entered into a loan agreement with the OFA to borrow an amount up to $1,833,000 to finance the capital costs of the PlayOLG.ca web site. The full loan balance of $1,833,000 was advanced on September 9, 2014. The loan plus accrued interest is repayable on September 9, 2016, the second anniversary of the first facility advance date. The facility bears interest at the rate of OFA's two-year cost of funds as of each facility advance date plus 0.425 percent per annum, compounded quarterly. The loan is unsecured.

d. Obligations under finance leases

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc. to lease the facility that houses Casino Niagara and to license the adjacent parking facilities. The amending agreement extends the term of the original lease and licence agreements by 15 years from March 10, 2010 to March 9, 2025. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 8.2 per cent. The total remaining obligation under the finance lease is $38,625,000 at March 31, 2015 (March 31, 2014 – $40,736,000).

The Corporation entered into a master services agreement to lease Tap-Tix, formerly known as BOT dispensers. This agreement is considered to be a finance lease for accounting purposes and has an implicit interest rate of 9.0 per cent. The total remaining obligation under the finance lease is $17,255,000 at March 31, 2015 (March 31, 2014 – $11,056,000).

e. Payments over the next five years and thereafter

Payments related to long-term debt and obligations under finance leases that are expected to be made over the next five years and thereafter are approximately as follows:

March 31	**Long-term debt**	**Obligations under finance leases**		**Total**
	Repayments	Principal	Interest	
2016	$10,371	$7,886	$4,532	$22,789
2017	14,303	7,549	3,849	25,701
2018	5,069	7,087	3,187	15,343
2019	-	5,192	2,649	7,841
2020	-	4,457	2,225	6,682
Thereafter	-	23,709	5,440	29,149
	$29,743	**$55,880**	**$21,882**	**$107,505**

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21. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks.

b. Risk management framework

The Board of Directors, through its Audit and Risk Management Committee ("ARMC"), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures.

The Corporation's financial risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

During fiscal 2014–15, the ARMC oversaw how Management monitored compliance with the Corporation's risk management policies and procedures and reviewed the adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC was assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

The Corporation has a formal Enterprise Risk Management Program ("Program"), which is aligned with ISO 31000 and in conformity with the Ontario Public Service risk management guidance and requirements. This Program supports the Corporation in the identification, assessment and management of risks.

c. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations to the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables and liquid investments.

Trade and other receivables

Trade and other receivables include credit provided to retailers of lottery products, Charitable Gaming Centre service providers and customers of Resort Casinos. The Corporation performs credit evaluations of retailers, Charitable Gaming Centre service providers and customers and maintains reserves for potential credit losses on accounts receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

21. Financial risk management and financial instruments (continued)

c. Credit risk (continued)

The amounts disclosed in the Consolidated Statements of Financial Position are net of allowances for impairment, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on prior experience and its assessment of the current economic environment. The Corporation establishes an allowance for impairment that represents its estimate of potential credit losses. Historically, the Corporation has not experienced any significant losses. As at March 31, 2015, the Corporation had an allowance for impairment of $4,210,000 (March 31, 2014 – $3,890,000), which represented approximately 3.9 per cent (March 31, 2014 – 3.9 per cent) of the Corporation's consolidated accounts receivable. The Corporation believes that its allowance for impairment is sufficient to reflect the related credit risk.

Liquid investments

The Corporation limits its exposure to credit risk by investing in only short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy for short-term investments that provides direction for Management to minimize risk. All investments held by the Corporation are low-risk and have a term to maturity of less than 90 days. As a result, this risk is considered minimal.

d. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation's Net Profit to the Province commitment.

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements or other terms as otherwise agreed. In addition, all investments held by the Corporation are low-risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of net income and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's line of business, which historically has generated positive cash flows, liquidity risk is considered minimal.

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21. Financial risk management and financial instruments (continued)

d. Liquidity risk (continued)

The undiscounted contractual maturities of the financial liabilities are as follows:

March 31, 2015	Carrying amount	Contractual cash flows	< 1 year	1 – 2 Years	2 – 5 years	> 5 years
Trade and other payables	$322,791	$322,791	$322,791	$ -	$ -	$ -
Due to operators	34,729	34,729	34,729	-	-	-
Due to Rama First Nation	2,005	2,005	2,005	-	-	-
Due to the Government of Canada	15,754	15,754	15,754	-	-	-
Long-term debt, including obligations under finance leases	85,623	108,362	23,213	26,080	29,918	29,151
	$460,902	$483,641	$398,492	$26,080	$29,918	$29,151

March 31, 2014	Carrying amount	Contractual cash flows	< 1 year	1 – 2 Years	2 – 5 years	> 5 years
Trade and other payables	$292,353	$292,353	$292,353	$ -	$ -	$ -
Due to operators	38,575	38,575	38,575	-	-	-
Due to Rama First Nation	1,972	1,972	1,972	-	-	-
Due to the Government of Canada	15,735	15,735	15,735	-	-	-
Long-term debt, including obligations under finance leases	84,071	110,016	20,223	19,474	35,457	34,862
	$432,706	$458,651	$368,858	$19,474	$35,457	$34,862

21. Financial risk management and financial instruments (continued)

e. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign currency risk and other market price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days, and long-term debt.

Long-term debt currently consists of three loan agreements with the OFA and obligations under finance leases. The obligations under finance leases (Note 20.d) and one of the term loan agreements have fixed interest rates for their entire terms, while the other two loan agreements are subject to variable interest rates. Each of the long-term debt instruments is currently subject to limited interest rate risk.

At March 31, 2015, the Corporation had cash and cash equivalents of $316,340,000 (March 31, 2014 – $311,680,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies, primarily in U.S. dollars ("USD"), and by holding bank accounts and investments in USD.

The majority of the Corporation's suppliers and customers are based in Canada and, therefore, transact in Canadian dollars ("CAD"). Some suppliers and customers are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation's border properties attract U.S. players who are required to exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate and utilizes both a 'buy' and 'sell' rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with customers, as well as paying its U.S.-based suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. The Corporation's foreign exchange gain for the year ended March 31, 2015 was $5,308,000 (March 31, 2014 – $6,757,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

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21. Financial risk management and financial instruments (continued)

e. Market risk (continued)

(ii) Foreign currency risk (continued)

The Corporation's exposure to currency risk, based on the carrying amounts, is as follows:

USD	March 31, 2015	March 31, 2014
Cash and cash equivalents	$21,189	$16,621
Trade and other payables	(2,390)	(3,524)
Obligations under finance lease	(17,256)	(11,056)
Net exposure	$1,543	$2,041

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2015 would have increased net income by $154,000. A 10 per cent decrease in the value of the USD at March 31, 2015 would have had the equal but opposite effect. This analysis assumes that all other variables, including interest rates, remain constant.

(iii) Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on OLG.ca and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

f. Fair values measurement

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

21. Financial risk management and financial instruments (continued)

f. Fair values measurement (continued)

The Corporation has determined the fair value of its financial instruments as follows:

The Corporation's financial instruments carried at fair value in the Consolidated Statements of Financial Position, which consist of cash and cash equivalents and restricted cash, are valued using quoted market prices, which are included in Level 1.

The carrying amounts in the Consolidated Statements of Financial Position of trade and other payables, due to operators, due to Rama First Nation and due to the Government of Canada approximate fair values because of the short-term nature of these financial instruments or because they are payable on demand.

Trade and other receivables are carried at amortized cost using the effective interest method.

The fair value of the Corporation's long-term debt, excluding obligations under finance leases, is not determinable given its related party nature and there is no observable market for the Corporation's long-term debt. The obligations under finance leases are carried at amortized cost using the effective interest method.

There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the years ended March 31, 2015 or March 31, 2014.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

22. Employee benefits

a. Defined contribution plans

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the year ended March 31, 2015 amounted to $19,310,000 (March 31, 2014 – $19,336,000).

b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole-sponsored defined benefit pension plans established by the Province of Ontario. The Province of Ontario controls all entities included in the PSPF and OPSEU Pension Plans. Contribution rates are set by the *Public Service Pension Act*, whereby the Corporation matches all regular contributions made by the member. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the Consolidated Statements of Comprehensive Income. The Corporation's contribution and pension expense during the year was $19,437,000 (March 31, 2014 – $19,607,000).

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
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22. Employee benefits (continued)

c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act*, (the "Act"), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board ("WSIB") maintains full authority over the claims entitlement process and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported in the Consolidated Statements of Financial Position.

The WSIB accrual at March 31, 2015 was $20,304,000 (March 31, 2014 – $15,129,000), of which $18,882,000 (March 31, 2014 – $14,070,000) is included in non-current employee benefits liability and $1,422,000 (March 31, 2014 – $1,059,000) is included in trade and other payables in Note 10. The accrued benefit costs are based on actuarial assumptions.

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

d. Short-term employee benefits

Short-term employee benefits include salaries payable, incentive accruals, vacation accruals, severance accruals and other employee-related payables which have been recorded in trade and other payables (Note 10).

23. Commitments

a. Obligations under operating leases

The Corporation has entered into several operating leases for facilities, property and equipment. The future minimum lease payments are, approximately, as follows:

	March 31, 2015
No later than 1 year	$44,481
Later than 1 year and not later than 5 years	106,239
Later than 5 years	12,937
	$163,657

Ontario Lottery and Gaming Corporation
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23. Commitments (continued)

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Government of Canada, as described in Note 18.b, on the future lease payments are, approximately, as follows:

2016	$36,852
2017	30,572
2018	24,543
2019	19,630
2020	15,508
	127,105
Thereafter	241,200
	$368,305

c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2015 of approximately:

2016	$21,226
2017	20,778
2018	20,537
2019	13,871
2020	12,487
Thereafter	2,115
	$91,014

d. Caesars Windsor

In fiscal 2014–15, the Corporation transferred cash of $60,000,000 (fiscal 2013–14 – $45,000,000) to Caesars Windsor for its working capital requirements. The Corporation has committed to transfer up to $81,000,000 to Caesars Windsor in fiscal 2015–16 for working capital.

e. Ontario First Nations (2008) Limited Partnership

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations Limited Partnership and Ontario First Nations (2008) Limited Partnership entered into the Gaming Revenue Sharing and Financial Agreement ("GRSFA"). Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay the Ontario First Nations (2008) Limited Partnership, commencing in fiscal 2011–12 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined ("Gaming Revenue Sharing Payment"). Pursuant to the GRSFA, during fiscal 2014–15, $121,563,000 was expensed (fiscal 2013–14 – $119,877,000) as Gaming Revenue Sharing Payment in Note 25.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

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21. Contingencies

a. On May 20, 2009, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain INSTANT lottery game tickets once the top prizes were won. The action is at a very early stage, as no action has taken place since May 2009 and no class has been certified by the courts. The Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in the Consolidated Statements of Financial Position as at March 31, 2015.

b. During fiscal 2012–13, OLG and the Province of Ontario were served with a Notice of Arbitration (the "Arbitration Matter") from a third party asserting a $205,000,000 claim to certain cash generated by Casino Rama and the residual value of certain Casino Rama property and equipment as at March 31, 2011. On January 22, 2014, the arbitrator delivered his reasons dismissing the third party's claims in the Arbitration Matter entirely. The third party sought leave to appeal the Arbitration Matter in the courts. On October 27, 2014, leave to appeal was denied. The parties are in the process of finalizing the payment of costs associated with the arbitration.

c. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact in its Consolidated Statements of Financial Position. Estimates, where appropriate, have been included in the Consolidated Statements of Financial Position (Note 11); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge in the Consolidated Statements of Comprehensive Income in the period in which the settlement occurs.

22. Segmented information

The Corporation has four reportable segments, as described below, which are the Corporation's strategic business units. The strategic business units are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The chief operating decision-maker, which is the Corporation's ELT, reviews internal management reports on a monthly basis for each of the strategic business units and makes resource allocation decisions. The following summary describes the operations in each reportable segment:

- Lottery derives its revenue from the sale of lottery products, which include Lotto, INSTANT and Sports products. Lotto products are also available for purchase over the Internet at PlayOLG.ca.

- Charitable Gaming derives its revenue from the sale of Charitable Gaming products.

- Resort Casinos are full-service casinos that offer customers a variety of amenities in addition to slot and table games, including accommodations, entertainment and food and beverage services.

- OLG Slots and Casinos are smaller gaming facilities. OLG Casinos offer slot and table games, as well as food and beverage services. OLG Slots are located at racetrack sites and include only slot games. Food and beverage services are also offered at the racetrack sites; however, at most of the locations, OLG is not the entity providing those services. Casino-style games are also offered over the Internet at PlayOLG.ca.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2019 and 2018
(tabular amounts in thousands of Canadian dollars)

28. Segmented information (continued)

March 31, 2019	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
Revenues					
Gaming	$3,273,758	$114,876	$1,193,444	$1,986,559	$6,568,637
Non-gaming	–	–	92,286	19,289	111,575
	3,273,758	114,876	1,285,730	2,005,848	6,680,212
Expenses					
Non-gaming	–	–	227,291	48,897	276,188
Gaming and lottery operations	108,889	16,560	246,276	277,228	648,953
Prizes	1,997,211	27,920	–	–	2,025,131
Commissions	235,880	48,119	43,590	77,151	404,740
Marketing and promotion	56,492	2,358	140,958	117,107	316,915
Operators' fees	–	–	90,178	8,227	98,405
Amortization	8,023	–	100,881	59,081	168,085
General and administration	94,110	7,700	84,889	90,095	276,794
Facilities	7,100	910	120,322	170,011	298,343
Gaming Revenue Sharing Payment	57,288	6,392	28,758	39,815	131,853
Win contribution (Note 17)	–	–	230,902	16,932	248,836
Payments to the Government of Canada	58,440	10,836	84,093	88,778	250,210
	2,636,228	146,036	1,398,839	971,771	5,097,159
Segment income (loss) before the undernoted	637,530	(29,460)	(104,009)	1,026,077	1,707,426
Other income	2,356	–	17,303	28,083	47,869
Finance income	60	8	3,029	107	3,928
Finance costs	(148)	(1,102)	(5,787)	(276)	(6,991)
Foreign exchange gain (loss)	(2)	(1,889)	1,189	7	3,436
Other charges	–	(19,925)	–	(15,770)	(35,195)
Segment income (loss)	$639,846	$(51,283)	$(77,876)	$1,041,228	$1,750,368
Add: Win contribution (Note 17)	–	–	230,902	16,932	248,836
Net Profit to the Province (a)	$639,846	$(51,283)	$153,027	$1,058,160	$1,998,529

(a) Net Profit to the Province ("NPP") is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2015 and 2014

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25. Segmented information (continued)

March 31, 2014	Lottery	Charitable Gaming	Resort Casinos	OLG Slots and Casinos	Total
Revenues					
Gaming	$3,387,571	$73,817	$1,157,372	$1,948,843	$6,567,603
Non-gaming	-	-	87,574	15,201	102,775
	3,387,571	**73,817**	**1,244,946**	**1,964,044**	**6,670,378**
Expenses					
Non-gaming	-	-	219,383	36,326	255,709
Gaming and lottery operations	109,778	21,819	244,449	272,621	648,667
Prizes	1,865,202	20,079	-	-	1,885,281
Commissions	240,700	31,534	30,069	81,922	384,225
Marketing and promotion	57,904	3,869	144,737	101,861	308,371
Operators' fees	-	-	60,779	4,991	65,770
Amortization	10,781	5,904	111,093	59,452	187,230
General and administration	54,506	9,267	92,607	88,129	244,509
Facilities	8,344	482	124,653	170,918	304,397
Gaming Revenue Sharing Payment	55,887	2,676	25,861	35,453	119,877
Win contribution (Note 17)	-	-	231,414	14,047	245,461
Payments to the Government of Canada	99,730	9,412	84,137	88,612	281,891
	2,502,832	**105,042**	**1,369,182**	**954,332**	**4,931,388**
Segment income (loss) before the undernoted	**884,739**	**(31,225)**	**(124,236)**	**1,009,712**	**1,738,990**
Other income	1,539	-	15,536	28,314	45,389
Finance income	264	28	2,800	17	3,109
Finance costs	(122)	(838)	(4,359)	(547)	(5,866)
Foreign exchange gain (loss)	-	(1,279)	7,226	810	6,757
Other charges	-	(27,429)	-	-	(27,429)
Segment income (loss)	**$886,420**	**$(60,743)**	**$(103,033)**	**$1,038,306**	**$1,760,950**
Add: Win contribution (Note 17)	-	-	231,414	14,047	245,461
Net Profit to the Province (a)	**$886,420**	**$(60,743)**	**$128,381**	**$1,052,353**	**$2,006,411**

(a) Net Profit to the Province ("NPP") is the amount the Corporation returns to the Province of Ontario after stakeholder and other payments. NPP is calculated by adding back win contribution to segment profit (loss). The chief operating decision-maker, the ELT, considers NPP to be a key measure in evaluating decisions relating to the Corporation.

ONTARIOPOWER
GENERATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s (OPG) management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis (MD&A).

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, and risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of the financial information, we maintain and rely on a comprehensive system of internal controls and internal audits, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes: written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and accounting policies, which we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), is responsible for maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICOFR). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with US GAAP.

An evaluation of the effectiveness of the design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2014. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the Ontario Securities Commission, which includes attesting to the design and effectiveness of OPG's DC&P and ICOFR.

The Board of Directors, based on recommendations from its Audit and Finance Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major areas of financial risk, and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Independent Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Finance Committee, had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Tom Mitchell
President and Chief Executive Officer

Beth Summers
Chief Financial Officer

March 13, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of Ontario Power Generation Inc., which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of income, comprehensive income, cash flows, and changes in shareholder's equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Ernst + Young LLP

Toronto, Canada

March 13, 2015

Ernst & Young LLP

Chartered Professional Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31 *(millions of dollars except where noted)*	2014	2013
Revenue *(Note 16)*	**4,963**	4,863
Fuel expense *(Note 16)*	**641**	708
Gross margin *(Note 16)*	**4,322**	4,155
Expenses *(Note 16)*		
Operations, maintenance and administration	**2,615**	2,747
Depreciation and amortization *(Note 4)*	**754**	963
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**797**	756
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(714)**	(628)
Regulatory disallowance related to the Niagara Tunnel project *(Note 3)*	**77**	-
Income from investments subject to significant influence	**(41)**	(35)
Property taxes	**32**	53
Restructuring *(Note 21)*	**18**	50
	3,538	3,906
Income before other income, interest, income taxes, and extraordinary item	**784**	249
Other income	**(3)**	(3)
Income before interest, income taxes, and extraordinary item	**787**	252
Net interest expense *(Note 7)*	**80**	86
Income before income taxes and extraordinary item	**707**	166
Income tax expense *(Note 9)*	**139**	31
Income before extraordinary item	**568**	135
Extraordinary item [1] *(Note 3)*	**243**	-
Net income	**811**	135
Net income attributable to the Shareholder	**804**	135
Net income attributable to non-controlling interests	**7**	-
Basic and diluted net income per common share before extraordinary item *(dollars)*	**2.19**	0.53
Extraordinary item per common share *(dollars)*	**0.95**	-
Basic and diluted net income per common share *(dollars)*	**3.14**	0.53
Common shares outstanding *(millions)*	**256.3**	256.3

[1] Wholly attributable to the Shareholder.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 *(millions of dollars)*	**2014**	**2013**
Net income	**811**	135
Other comprehensive income, net of income taxes *(Note 10)*		
Recognition of initial pension and other post-employment benefits regulatory asset related to facilities prescribed for rate regulation beginning in 2014 *(Note 3)* [1]	**184**	-
Actuarial (loss) gain and past service credits on re-measurement of liabilities for pension and other post-employment benefits [2]	**(35)**	226
Reclassification to income of amounts related to pension and other post-employment benefits [3]	**27**	42
Net (loss) gain on derivatives designated as cash flow hedges [4]	**(2)**	14
Reclassification to income of losses on derivatives designated as cash flow hedges [5]	**14**	13
Other comprehensive income	**188**	295
Comprehensive income	**999**	430
Comprehensive income attributable to the Shareholder	**992**	430
Comprehensive income attributable to non-controlling interests	**7**	-

[1] Net of income tax expenses of $61 million and nil for 2014 and 2013, respectively.

[2] Net of income tax recoveries of $12 million and expenses of $75 million for 2014 and 2013, respectively.

[3] Net of income tax expenses of $10 million and $15 million for 2014 and 2013, respectively.

[4] Net of income tax recoveries of $1 million and expenses of $3 million for 2014 and 2013, respectively.

[5] Net of income tax expenses of $2 million and $2 million for 2014 and 2013, respectively.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 *(millions of dollars)*	**2014**	**2013**
Operating activities		
Net income	**811**	135
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**754**	963
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**797**	756
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(714)**	(628)
Pension and other post-employment benefit costs *(Note 11)*	**460**	455
Extraordinary item *(Note 3)*	**(243)**	-
Deferred income taxes and other accrued charges	**56**	(3)
Provision for restructuring *(Note 21)*	**12**	50
Mark-to-market on derivative instruments	**(52)**	39
Provision for used nuclear fuel and low and intermediate level waste *(Note 8)*	**116**	109
Regulatory assets and liabilities	**(104)**	(232)
Provision for materials and supplies	**38**	43
Regulatory disallowance related to the Niagara Tunnel project *(Note 3)*	**77**	-
Other	**(14)**	(15)
	1,994	1,672
Contributions to nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(139)**	(184)
Expenditures on fixed asset removal and nuclear waste management *(Note 8)*	**(212)**	(199)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management *(Note 8)*	**77**	75
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans *(Note 11)*	**(473)**	(407)
Expenditures on restructuring *(Note 21)*	**(35)**	(13)
Net changes to other long-term assets and liabilities	**9**	(9)
Net changes to non-cash working capital balances *(Note 17)*	**212**	239
Cash flow provided by operating activities	**1,433**	1,174
Investing activities		
Investment in property, plant and equipment and intangible assets *(Notes 4 and 16)*	**(1,545)**	(1,568)
Cash flow used in investing activities	**(1,545)**	(1,568)
Financing activities		
Issuance of long-term debt *(Note 6)*	**200**	515
Repayment of long-term debt *(Note 6)*	**(3)**	(4)
Distribution paid to non-controlling interests	**(5)**	-
Issuance of short-term notes *(Note 7)*	**3,332**	914
Repayment of short-term notes *(Note 7)*	**(3,364)**	(882)
Cash flow provided by financing activities	**160**	543
Net increase in cash and cash equivalents	**48**	149
Cash and cash equivalents, beginning of year	**562**	413
Cash and cash equivalents, end of year	**610**	562

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2014**	**2013**
Assets		
Current assets		
Cash and cash equivalents	**610**	562
Receivables from related parties *(Note 18)*	**482**	402
Other accounts receivable and prepaid expenses	**136**	148
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**25**	25
Fuel inventory *(Note 16)*	**334**	390
Materials and supplies *(Note 16)*	**94**	95
Regulatory assets *(Note 5)*	**167**	306
Income taxes recoverable	**-**	51
Deferred income taxes *(Note 9)*	**8**	-
	1,856	1,979
Property, plant and equipment *(Notes 4, 15, and 16)*	**25,859**	24,441
Less: accumulated depreciation	**8,266**	7,703
	17,593	16,738
Intangible assets *(Notes 4 and 16)*	**432**	402
Less: accumulated amortization	**356**	343
	76	59
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Notes 8 and 16)*	**14,354**	13,471
Long-term materials and supplies *(Note 16)*	**338**	330
Regulatory assets *(Note 5)*	**7,024**	5,094
Investments subject to significant influence *(Note 19)*	**348**	359
Other long-term assets	**64**	61
	22,128	19,315
	41,653	38,091

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 *(millions of dollars)*	**2014**	**2013**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 18)*	**1,151**	1,026
Short-term debt *(Note 7)*	**-**	32
Deferred revenue due within one year	**12**	12
Deferred income taxes *(Note 9)*	**-**	14
Long-term debt due within one year *(Note 6)*	**503**	5
Income taxes payable	**24**	-
Regulatory liabilities *(Note 5)*	**5**	16
	1,695	1,105
Long-term debt *(Note 6)*	**5,227**	5,620
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Notes 8 and 16)*	**17,028**	16,257
Pension liabilities *(Note 11)*	**3,570**	2,741
Other post-employment benefit liabilities *(Note 11)*	**3,050**	2,628
Long-term accounts payable and accrued charges	**529**	653
Deferred revenue	**212**	180
Deferred income taxes *(Note 9)*	**836**	565
Regulatory liabilities *(Note 5)*	**39**	8
	25,264	23,032
Equity		
Common shares *(Note 14)* [1]	**5,126**	5,126
Retained earnings	**4,696**	3,892
Accumulated other comprehensive loss *(Note 10)*	**(496)**	(684)
Equity attributable to the Shareholder	**9,326**	8,334
Equity attributable to non-controlling interests *(Note 22)*	**141**	-
Total equity	**9,467**	8,334
	41,653	38,091

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at December 31, 2014 and 2013.

Commitments and Contingencies *(Notes 6, 9, 11, 12, and 15)*

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Bernard Lord
Chairman

M. George Lewis
Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 *(millions of dollars)*	**2014**	**2013**
Common shares *(Note 14)*	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**3,892**	3,757
Net income attributable to the Shareholder	**804**	135
Balance, end of year	**4,696**	3,892
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	**(684)**	(979)
Other comprehensive income	**188**	295
Balance, end of year	**(496)**	(684)
Equity attributable to the Shareholder	**9,326**	8,334
Equity attributable to non-controlling interests *(Note 22)*		
Balance at beginning of year	**-**	-
Equity contribution from non-controlling interests	**141**	-
Distribution to non-controlling interests	**(7)**	-
Net income attributable to non-controlling interests	**7**	-
Balance, end of year	**141**	-
Total equity	**9,467**	8,334

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

1. DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. (OPG or the Company) was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province and Shareholder). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's mission is to be Ontario's low cost electricity generator through a focus on three corporate strategies: operational excellence, project excellence, and financial sustainability.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for annual financial statements, as required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario) effective January 1, 2012.

During the first quarter of 2014, OPG received exemptive relief from the Ontario Securities Commission (OSC) requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP without becoming a Securities and Exchange Commission registrant, or issuing public debt. The exemption will terminate on the earliest of the following:

- January 1, 2019
- The financial year that commences after OPG ceases to have activities subject to rate regulation
- The effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with rate-regulated activities.

All dollar amounts are presented in Canadian dollars, except in tabular format where noted. Certain of the 2013 comparative amounts have been reclassified from financial statements previously presented to conform to the 2014 consolidated financial statement presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements of the Company include the accounts of OPG and its majority-owned subsidiaries, and a variable interest entity (VIE) where OPG is the primary beneficiary. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

Where OPG does not control an investment, but has significant influence over operating and financing policies of the investee, the investment is accounted for under the equity method. OPG co-owns the Portlands Energy Centre (PEC) gas-fired combined cycle generating station with TransCanada Energy Ltd. and co-owns the Brighton Beach gas-fired combined cycle generating station with ATCO Power Canada Ltd. OPG accounts for its 50 percent ownership interest in each of these jointly controlled entities under the equity method.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any variable interest entities (VIEs). VIEs of which OPG is deemed to be the primary beneficiary are consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the Company. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's consolidated financial statements.

In 2002, OPG and other Canadian nuclear waste producers established the Nuclear Waste Management Organization (NWMO) in accordance with the *Nuclear Fuel Waste Act* (NFWA). The primary long-term mandate of the NWMO is to implement an approach to address the long-term management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's Deep Geologic Repository project for Low and Intermediate Level Waste (L&ILW) and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the Board of Directors' and members' level. In addition, the NFWA requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long-term management plan. OPG currently provides approximately 90 percent of NWMO's funding, primarily towards the Adaptive Phased Management plan for the long-term management of nuclear used fuel. As a result, OPG is expected to absorb a majority of the NWMO's expected losses through future funding in the event of any shortfall. Therefore, OPG holds a variable interest in the NWMO, of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

Use of Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Management evaluates the Company's estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefits (OPEB), asset retirement obligations (AROs), income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost and market.

Inventories

Inventories, consisting of fuel and materials and supplies, are measured at the lower of cost and market. Cost is determined as weighted average cost for fuel inventory and average cost for materials and supplies.

Property, Plant and Equipment, Intangible Assets and Depreciation and Amortization

Property, plant and equipment and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rates on OPG's long-term debt.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are charged to operations, maintenance and administration (OM&A) expenses. Repairs and maintenance costs are also expensed when incurred.

Property, plant and equipment are depreciated on a straight-line basis except for computers and transport and work equipment. These are mostly depreciated on a declining balance basis. Intangible assets, which include major application software, are amortized on a straight-line basis. As at December 31, 2014, the amortization periods of property, plant and equipment and intangible assets are as follows:

Nuclear generating stations and major components	15 to 59 years [1]
Thermal generating stations and major components	25 to 50 years
Hydroelectric generating stations and major components	15 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2014, the end of station life for depreciation purposes for the Darlington, Pickering, and Bruce A and B nuclear generating stations ranges between 2018 and 2051. Major components are depreciated over the lesser of the station life and the life of the components.

Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized. This loss equals the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

The carrying value of investments accounted for under the equity method are reviewed annually for the presence of any indicators of impairment. If an impairment exists and is determined to be other than temporary, an impairment charge is recognized. This charge equals the amount by which the carrying value exceeds the investment's fair value.

Rate Regulated Accounting

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that OPG receives regulated prices for electricity generated from the following facilities that are prescribed for rate regulation: the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, the Pickering and Darlington nuclear facilities, and 48 previously unregulated hydroelectric generating facilities that were prescribed for rate regulation beginning in 2014 pursuant to a November 2013 amendment to *Ontario Regulation 53/05*. OPG's regulated prices for these facilities are determined by the Ontario Energy Board (OEB).

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates market participants in Ontario's natural gas and electricity industries. The OEB carries out its regulatory functions through public hearings and other more informal processes, such as consultations.

US GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the ratepayers. When the Company assesses that there is sufficient assurance that incurred costs in respect of the regulated facilities will be recovered in the future, those costs are deferred and reported as a regulatory asset. When the Company is required to refund amounts to ratepayers in the future in respect of the regulated facilities, including amounts related to costs that have not been incurred and for which the OEB has provided recovery through regulated prices, the Company records a regulatory liability.

Certain of the regulatory assets and liabilities recognized by the Company relate to variance and deferral accounts authorized by the OEB, including those authorized pursuant to Ontario Regulation 53/05. These accounts typically capture differences between actual costs and revenues and the corresponding forecast amounts approved in the setting of the regulated prices, or record the impact of items not reflected in approved regulated prices. The measurement of these regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of Ontario Regulation 53/05 and the OEB's decisions. The estimates and assumptions made in the interpretation of the regulation and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB for inclusion in regulated prices are amortized based on approved recovery or repayment periods. Disallowed balances, including associated interest, are charged to operations in the period that the OEB's decision is issued. Interest is applied to regulatory balances as prescribed by the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

Regulatory assets and liabilities for variance and deferral account balances approved by the OEB are classified as current if they are expected to be recovered from, or refunded to, ratepayers within 12 months of the end of the reporting period, based on recovery or repayment periods established by the OEB. All other regulatory asset and liability balances are classified as long-term on the consolidated balance sheets.

In addition to regulatory assets and liabilities for variance and deferral accounts, OPG recognizes regulatory assets and liabilities for unamortized amounts recorded in accumulated other comprehensive income (AOCI) in respect of pension and OPEB obligations, and deferred income taxes, in order to reflect the expected recovery or repayment of these amounts in respect of the regulated operations through future regulated prices charged to customers. There are measurement uncertainties related to these balances due to the assumptions made in the determination of pension and OPEB obligations and deferred income taxes attributed to the regulated facilities.

The regulatory asset for unamortized pension and OPEB amounts recorded in AOCI has reflected the OEB's use, since April 1, 2008, of the accrual basis of accounting for including pension and OPEB amounts in approved regulated prices. This is also the manner in which these costs are recognized in OPG's consolidated financial statements. Therefore, unamortized amounts in respect of OPG's pension and OPEB plans that are recognized in AOCI generally have not been reflected in the regulated prices until they have been reclassified from AOCI and recognized as amortization components of the benefit costs for these plans. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit cost.

In setting new regulated prices effective November 1, 2014, the OEB limited amounts for pension and OPEB allowed in the approved revenue requirements to OPG's cash expenditures on its pension and OPEB plans for the regulated business. It is the Company's position that this decision by the OEB does not constitute a change in the basis of OPG's recovery of pension and OPEB costs. This position is based on the OEB's establishment of the Pension & OPEB Cash Versus Accrual Differential Deferral Account which, effective November 1, 2014, records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and the corresponding actual cash expenditures for these plans, the OEB's expectation in the November 2014 decision that a transition to a cash basis of recovery for OPG, if required, would be addressed in a future OPG rate proceeding, and the OEB's intention to hold a generic hearing on the regulatory treatment and recovery of pension and OPEB costs. Accordingly, the Company continues to believe that there is sufficient likelihood that unamortized pension and OPEB amounts that have not yet been reclassified from AOCI will be included in future regulated prices as they are recognized in benefit costs. Therefore, the Company has continued to recognize a regulatory asset for these unamortized amounts. If, in a future proceeding, the OEB decides that the recovery basis for pension and OPEB amounts should be changed, OPG may be required to adjust the regulatory assets for unamortized pension and OPEB amounts recorded in AOCI and the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

See Notes 5, 8, 9, and 11 to these consolidated financial statements for additional disclosures related to the OEB's decisions, regulatory assets and liabilities, and rate regulated accounting.

Fixed Asset Removal and Nuclear Waste Management Liabilities

OPG recognizes AROs for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG estimates both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liabilities for nuclear fixed asset removal and nuclear waste management (Nuclear Liabilities) are increased by the present value of the incremental cost portion for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Variable expenses relating to low and intermediate level nuclear waste are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the nuclear liabilities are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining service life of the related fixed assets and is included in depreciation and amortization expenses.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, OPG established a Used Fuel Segregated Fund (Used Fuel Fund) and a Decommissioning Segregated Fund (Decommissioning Fund) (together the Nuclear Funds). The Used Fuel Fund is intended to fund expenditures associated with the management of radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal, long-term L&ILW management, and certain costs for used fuel storage incurred after the nuclear stations are shut down. OPG maintains the Nuclear Funds in third-party custodial accounts that are segregated from the rest of OPG's assets.

OPG's investments in the Nuclear Funds and the corresponding payable/receivable to/from the Province are classified as held-for-trading. The Nuclear Funds are measured at fair value based on the bid prices of the underlying equity and fixed income securities, and, in the case of the alternative investment portfolio, using appropriate valuation techniques as outlined in Note 13 to these consolidated financial statements, with realized and unrealized gains and losses recognized in OPG's consolidated statements of income.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator (IESO). Revenue is recognized as electricity is generated and metered to the IESO.

Effective January 1, 2015, the Ontario Power Authority (OPA) merged with the IESO. The new entity continued under the name Independent Electricity System Operator (IESO). As such, the IESO is substituted as the counterparty of Energy Supply Agreements (ESA) or other agreements that were previously executed with the OPA.

Revenue Recognition – Regulated Generation

Energy revenue generated from OPG's regulated facilities is based on regulated prices determined by the OEB that currently include a base regulated price and a rate rider for the recovery or repayment of approved variance and deferral account balances.

The base regulated prices in effect during 2014 and 2013 were determined by the OEB using a two-year forecast cost of service methodology based on revenue requirements, taking into account a forecast of production and operating costs for the regulated facilities and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed and intangible assets and an allowance for working capital. The revenues from the regulated hydroelectric facilities are also subject to the OEB-approved hydroelectric incentive mechanism. The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to ratepayers.

The rate riders in effect during 2014 and 2013 were established by the OEB following its March 2013 decision approving a settlement agreement between OPG and intervenors on OPG's application to recover or repay balances in most of the OEB-authorized regulatory variance and deferral accounts as at December 31, 2012. The OEB-authorized variance and deferral accounts are discussed in Note 5 to these consolidated financial statements.

Revenue Recognition – Unregulated Generation and Other Revenue

The electricity generation from OPG's unregulated assets received the Ontario electricity spot market price, except where an ESA with the IESO or a cost recovery agreement is in place. As at December 31, 2014, virtually all of OPG's operating unregulated assets are subject to an ESA. Revenue generated by generating stations subject to a cost recovery agreement or an ESA is recognized in accordance with the terms of the agreement or contract.

OPG also sells into, and purchases from, interconnected markets of other provinces and the United States (US) northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value, with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $131 million were netted against revenue in 2014 (2013 – $94 million).

OPG derives non-energy revenue under the terms of a lease arrangement and associated agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This includes lease revenue and revenue from heavy water sales and detritiation services. The benefit of OPG's net revenues from the lease of the Bruce stations and related agreements, including a portion of heavy water sales, are credited to ratepayers, as it reduces the regulated price of the generation of the nuclear facilities owned and operated by OPG. The minimum lease payments are recognized in revenue on a straight-line basis over the term of the lease.

In addition, non-energy revenue includes isotope sales, real estate rentals and other service revenues. Revenues from these activities are recognized as services are provided, or as products are delivered.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements and the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective, and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

All derivative contracts not designated as hedges are recorded on the consolidated balance sheets as derivative assets or liabilities at fair value with changes in fair value recorded in the revenue of the Services, Trading, and Other Non-Generation segment. Refer to Note 12 for a discussion of OPG's risks and the derivative instruments used to manage the risks.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. OPG uses a fair value hierarchy, grouping assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the most objective. Refer to Note 13 for a discussion of fair value measurements and the fair value hierarchy.

Research and Development

Research and development costs are expensed in the year incurred. Research and development costs incurred to discharge long-term obligations, such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is different from the actual operating lease payment, other than contingent rentals, the difference is deferred and included as assets or liabilities on the consolidated balance sheets.

Pension and Other Post-Employment Benefits

OPG's post-employment benefit programs consist of a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, and other post-retirement benefits (OPRB) including group life insurance and health care benefits, and long-term disability (LTD) benefits. Post-employment benefit programs are also provided by the NWMO, which is consolidated into OPG's financial results. Information on the Company's post-employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and OPEB plans in accordance with US GAAP. The obligations for pension and OPRB are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in demographic assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions – discount rate and inflation – are important elements in the determination of benefit costs and obligations. In addition, the expected return on plan assets is a critical assumption in the determination of registered pension plan costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover, are evaluated periodically by management in consultation with independent actuaries. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods; for LTD benefits, the impact of these updates and differences is immediately recognized as OPEB costs in the period incurred.

The discount rates, which are representative of AA corporate bond yields, are used to calculate the present value of the expected future cash flows on the measurement date to determine the projected benefit obligations for the Company's employee benefit plans. A lower discount rate increases the benefit obligations and increases benefit costs. The expected rate of return on plan assets is based on the pension fund's asset allocation, as well as the expected return considering long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities, corporate and government debt securities, pooled funds, real estate, infrastructure, and other investments. These assets are managed by professional investment managers. The pension fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs or credits arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the plan. Past service costs or credits arising from amendments to LTD benefits are immediately recognized as OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets (corridor), is amortized over the expected average remaining service life of the employees since OPG expects to realize the associated economic benefit over that period. Actuarial gains or losses for LTD benefits are immediately recognized as OPEB costs in the period incurred.

OPG recognizes on its consolidated balance sheets the funded status of its defined benefit plans. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis.

Actuarial gains or losses and past service costs or credits that arise during the year and are not recognized immediately as components of benefit costs are recognized as increases or decreases in other comprehensive income (OCI), net of income taxes. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of pension and OPRB costs as discussed above.

OPG records an offsetting regulatory asset or liability for the portion of the adjustments to AOCI that is attributable to regulated operations in order to reflect the expected recovery or refund of these amounts through future regulated prices charged to customers. For the recoverable or refundable portion attributable to regulated operations, OPG records a corresponding change in this regulatory asset or liability for the amount of the increases or decreases in OCI and for the reclassification of AOCI amounts into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Income Taxes and Investment Tax Credits

OPG is exempt from income tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This results in OPG effectively paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities. Deferred amounts are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on deferred income tax assets and liabilities is included in income in the period the change is enacted.

If management determines that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

OPG recognizes deferred income taxes associated with its regulated operations and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense. OPG classifies interest and penalties associated with unrecognized tax benefits as income tax expense.

Changes in Accounting Policies and Estimates

Impacts of Regulation of the Newly Regulated Hydroelectric Facilities, and the OEB's 2014 Decision and Order

The OEB's decision on OPG's September 2013 application for new regulated prices for OPG's nuclear and existing regulated hydroelectric generation was issued in November 2014, following a public hearing process. This decision was followed by the OEB's order in December 2014 establishing new regulated prices for these facilities effective November 1, 2014.

The OEB's decision and order also established a regulated price for the generation from the 48 newly regulated hydroelectric facilities. The regulated prices for these facilities are also effective November 1, 2014.

As a result of the rate regulation of these 48 previously unregulated hydroelectric facilities in 2014, OPG recognized regulatory assets related to deferred income taxes, and unamortized amounts recorded in AOCI in respect of pension and OPEB obligations. The increase in the regulatory asset related to deferred income taxes resulted in a net extraordinary gain of $243 million in the consolidated statement of income for 2014. The increase in regulatory assets related to pension and OPEB obligations resulted in an increase of $184 million in OCI, net of $61 million in income taxes.

The OEB's decision and order approved a $1,365 million addition to regulated rate base due to the completion and in-service addition of the Niagara Tunnel project in March 2013. The approved rate base amount is lower than the cost of the asset. Under Accounting Standards Codification (ASC) Topic 980 *Regulated Operations,* disallowances by a regulator on recently completed assets are generally required to be written off during the period when the regulator's decision is issued. As such, the OEB's cost disallowance on the Niagara Tunnel project resulted in a write-off of costs of $77 million in 2014, including $1 million of expected project close out costs. In December 2014, OPG filed a motion asking the OEB to review and vary certain parts of its decision, including the disallowance of the Niagara Tunnel expenditures.

Investment Companies

For reporting periods beginning January 1, 2014, OPG adopted the updates to ASC Topic 946, *Investment Companies*. Based on the amended scope of the standard, OPG concluded that OPG Ventures Inc., the Decommissioning Fund, the Used Fuel Fund and the Ontario NFWA Trust should be treated as investment entities for accounting purposes. As the investments of these entities are already recorded at fair value, there were no measurement differences upon adoption of this update. Additional disclosures required under ASC Topic 946 are provided in Note 8.

Pension and Other Post-Employment Benefits

The weighted average discount rate used to determine the projected pension benefit obligations and the projected benefit obligations for OPEB as at December 31, 2014 was 4.0 percent. This represents a decrease, compared to the 4.9 percent discount rate that was used to determine the obligations as at December 31, 2013.

The deficit for the registered pension plans increased from $2,461 million as at December 31, 2013 to $3,262 million as at December 31, 2014 largely as a result of the decrease in the discount rates at 2014 year end, partially offset by the favourable return on pension fund assets in 2014.

The projected benefit obligations for OPEB increased from $2,719 million at December 31, 2013 to $3,143 million as at December 31, 2014. This increase in the obligation was largely due to the decrease in the discount rates.

As at December 31, 2014, the unamortized net actuarial loss and unamortized past service costs for the pension and OPEB plans totalled $4,869 million (2013 – $3,899 million). Details of the unamortized net actuarial loss and unamortized past service costs at December 31, 2014 and 2013 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Net actuarial gain not yet subject to amortization due to use of market-related values	**(878)**	(886)	**-**	-	**-**	-
Net actuarial loss not subject to amortization due to use of the corridor	**1,568**	1,339	**32**	29	**288**	245
Net actuarial loss subject to amortization	**3,443**	3,043	**65**	50	**350**	78
Unamortized net actuarial loss	**4,133**	3,496	**97**	79	**638**	323
Unamortized past service costs	**-**	-	**-**	-	**1**	1

A change in assumptions, holding all other assumptions constant, would increase (decrease) 2014 costs as follows:

(millions of dollars)	Registered Pension Plans [1]	Supplementary Pension Plans [1]	Other Post-Employment Benefits [1]
Expected long-term rate of return			
0.25% increase	(25)	n/a	n/a
0.25% decrease	25	n/a	n/a
Discount rate			
0.25% increase	(51)	(1)	(10)
0.25% decrease	54	1	12
Inflation			
0.25% increase	90	1	1
0.25% decrease	(85)	(1)	(1)
Salary increases			
0.25% increase	20	3	1
0.25% decrease	(20)	(3)	(1)
Health care cost trend rate			
1% increase	n/a	n/a	75
1% decrease	n/a	n/a	(37)

n/a – change in assumption not applicable.

[1] Excludes the impact of regulatory variance and deferral accounts.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgement and estimates may be required, compared to the requirements under existing US GAAP. The standard will be effective for OPG's 2017 fiscal year, including interim periods in 2017. In applying the standard, entities would have the option between two retrospective transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption and additional disclosures. OPG is currently assessing the impact of this new standard on its consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2017.

Consolidation

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (ASU 2015-02), which incorporates targeted changes to the consolidation guidance for limited partnerships, limited liability corporations and securitization structures. Specifically for OPG, limited partnerships will now be VIEs unless the limited partners hold substantive "kick-out" or participating rights. It is expected that more limited partnerships will therefore be considered VIEs and where OPG is the primary beneficiary; the limited partnerships that are not currently consolidated would be consolidated. The amendments will be effective for OPG's 2016 fiscal year, including interim periods in 2016. OPG is currently assessing the impact of the standard on its consolidated financial statements and has not yet determined the impact of the standard in 2016.

4. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses for the years ended December 31 consist of the following:

(millions of dollars)	2014	2013
Depreciation	**451**	513
Amortization of intangible assets	**13**	14
Amortization of regulatory assets and liabilities *(Note 5)*	**290**	436
	754	963

Property, plant and equipment as at December 31 consist of the following:

(millions of dollars)	2014	2013 *(adjusted - Note 16)*
Nuclear generating stations	**9,313**	9,116
Regulated hydroelectric generating stations	**9,287**	9,296
Contracted generation portfolio generating stations	**3,600**	2,475
Other property, plant and equipment	**1,833**	414
Construction in progress	**1,826**	3,140
	25,859	24,441
Less: accumulated depreciation		
Generating stations	**6,771**	7,478
Other property, plant and equipment	**1,495**	225
	8,266	7,703
	17,593	16,738

Construction in progress as at December 31 consists of the following:

(millions of dollars)	2014	2013
Darlington Refurbishment	**1,309**	658
Atikokan Biomass Conversion	**6**	144
Lower Mattagami River Project	**-**	1,982
Other	**511**	356
	1,826	3,140

Interest capitalized to construction and development in progress at an average rate of five percent during 2014 (2013 – five percent) was $135 million (2013 – $127 million).

Intangible assets as at December 31 consist of the following:

(millions of dollars)	**2014**	**2013** *(adjusted - Note 16)*
Nuclear generating stations	**116**	114
Regulated hydroelectric generating stations	**4**	4
Contracted generation portfolio generating stations	**5**	5
Computer software and other intangible assets	**261**	257
Development in progress	**46**	22
	432	402
Less: accumulated amortization		
Generating stations	**109**	103
Computer software and other intangible assets	**247**	240
	356	343
	76	59

The estimated aggregate amortization expense for intangible assets currently recognized for each of the five succeeding years is as follows:

(millions of dollars)	**2015**	**2016**	**2017**	**2018**	**2019**
Amortization expense	11	8	4	2	-

5. REGULATORY ASSETS AND LIABILITIES

In March 2013, the OEB approved a settlement agreement between OPG and intervenors on all aspects of OPG's application requesting approval to recover or repay balances in most of the authorized variance and deferral accounts as at December 31, 2012 (the Settlement Agreement). In approving the Settlement Agreement, the OEB authorized the disposition of approved balances over periods ranging from two to 12 years beginning on January 1, 2013. In April 2013, the OEB issued an order authorizing OPG to collect $633 million over the period from January 1, 2013 to December 31, 2014 through rate riders effective during that period. During 2014 and 2013, the Company amortized the regulatory assets and liabilities for the variance and deferral balances approved for disposition based on recovery or repayment periods authorized by the OEB's approval of the Settlement Agreement. Any shortfall or over-recovery of approved balances due to differences between actual and forecast production was recorded in the authorized Nuclear Deferral and Variance Over/Under Recovery Variance Account and Hydroelectric Deferral and Variance Over/Under Recovery Variance Account to be collected from, or refunded to, ratepayers in the future.

The OEB's March 2013 decision and April 2013 order also authorized the continuation of previously existing variance and deferral accounts, including those authorized pursuant to *Ontario Regulation 53/05*. During the period from January 1, 2013 to October 31, 2014, the Company recognized regulatory assets and liabilities for additions recorded in these variance and deferral accounts as authorized by the OEB, relative to the forecast amounts reflected in the cost of service regulated prices then in effect, where applicable.

In November 2014 and December 2014, respectively, the OEB issued its decision and order establishing new regulated prices for OPG's regulated generation effective November 1, 2014. The OEB's decision and order approved the recovery or repayment of the balances in four variance accounts as at December 31, 2013 totalling $189 million, without adjustments. The recovery or repayment was approved for the following accounts: the Hydroelectric Incentive Mechanism Variance Account, the Hydroelectric Surplus Baseload Generation Variance Account, the nuclear capital and hydroelectric portions of the Capacity Refurbishment Variance Account, and the

Nuclear Development Variance Account. The OEB authorized the recovery or repayment of these balances over a 12-month period, through rate riders effective from January 1, 2015 to December 31, 2015.

In its decision and order, the OEB also approved the continuation of previously authorized variance and deferral accounts and, effective November 1, 2014, extended all applicable accounts to the 48 newly regulated hydroelectric facilities. During the period from November 1, 2014 to December 31, 2014, the Company recognized regulatory assets and liabilities for additions recorded in these variance and deferral accounts as authorized by the OEB. During this period, the Company also recognized regulatory assets for additions to the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension & OPEB Cash Payment Variance Account, which were established by the OEB effective November 1, 2014.

During 2014 and 2013, OPG recorded interest on the balances of the variance and deferral accounts as authorized by the OEB. For accounts subject to interest during this period, interest was recorded using the OEB-prescribed interest rate of 1.47 percent per annum.

In December 2014, OPG filed an application with the OEB requesting approval of the December 31, 2014 balances in most of the authorized regulatory variance and deferral accounts. The application requests recovery of these balances through new rate riders beginning on July 1, 2015. The decision on OPG's application will be made by the OEB following a public hearing process, which commenced in the first quarter of 2015.

The regulatory assets and liabilities recorded as at December 31 are as follows:

(millions of dollars)	**2014**	**2013**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension and OPEB Cost Variance Account	**939**	667
Bruce Lease Net Revenues Variance Account	**315**	353
Nuclear Liability Deferral Account	**286**	254
Capacity Refurbishment Variance Account	**190**	100
Hydroelectric Surplus Baseload Generation Variance Account	**67**	19
Nuclear Development Variance Account	**59**	57
Other variance and deferral accounts	**111**	233
	1,967	1,683
Pension and OPEB Regulatory Asset *(Note 11)*	**4,363**	3,158
Deferred Income Taxes *(Note 9)*	**861**	559
Total regulatory assets	**7,191**	5,400
Less: current portion	**167**	306
Non-current regulatory assets	**7,024**	5,094
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Other variance and deferral accounts	**44**	24
Total regulatory liabilities	**44**	24
Less: current portion	**5**	16
Non-current regulatory liabilities	**39**	8

The changes in the regulatory assets and liabilities during 2014 and 2013 are as follows:

(millions of dollars)	Pension and OPEB Cost Variance	Bruce Lease Net Revenues Variance	Nuclear Liability Deferral	Capacity Refurbish-ment Variance	Hydro-electric Surplus Baseload Generation Variance	Nuclear Develop-ment Variance	Other Variance and Deferral (net)	Pension and OPEB Regula-tory Asset	Deferred Income Taxes
Net regulatory assets January 1, 2013	324	311	208	14	4	30	384	4,494	689
Increase (decrease)	402	110	123	93	15	26	53	(1,336)	(130)
Interest	1	(5)	(2)	-	-	1	3	-	-
Amortization	(60)	(63)	(75)	(7)	-	-	(231)	-	-
Net regulatory assets December 31, 2013	667	353	254	100	19	57	209	3,158	559
Increase	**312**	**4**	**82**	**92**	**48**	**1**	**9**	**1,205**	**302**
Interest	-	-	-	**3**	-	**1**	**2**	-	-
Amortization	**(40)**	**(42)**	**(50)**	**(5)**	-	-	**(153)**	-	-
Net regulatory assets December 31, 2014	**939**	**315**	**286**	**190**	**67**	**59**	**67**	**4,363**	**861**

Pension and OPEB Cost Variance Account

As authorized by the OEB, for the period from March 1, 2011 to October 31, 2014, the Pension and OPEB Cost Variance Account recorded the difference between actual pension and OPEB costs for the regulated business determined on an accrual basis and related tax impacts, and the corresponding amounts reflected in the regulated prices then in effect. In its November 2014 decision, the OEB determined that the pension and OPEB amounts for the regulated business reflected in the new regulated prices effective November 1, 2014 would be limited to OPG's estimated minimum contributions to its registered pension plan and a forecast of OPG's expenditures on the OPEB and supplementary pension plans. As such, the OEB ordered the Pension and OPEB Cost Variance Account to record only amortization beginning on November 1, 2014.

In its March 2013 decision and April 2013 order, the OEB authorized the recovery of 2/12 of the balance in the Pension and OPEB Cost Variance Account as at December 31, 2012 over a 24-month period ending December 31, 2014. The OEB also authorized the recovery of 10/12 of the account balance as at December 31, 2012 over a 144-month period ending December 31, 2024. Accordingly, effective January 1, 2013, OPG recorded amortization of the regulatory asset for the account on a straight-line basis over these periods.

Bruce Lease Net Revenues Variance Account

As per *Ontario Regulation 53/05*, the OEB is required to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power L.P. in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB established a variance account that captures differences between OPG's revenues and costs related to the nuclear generating station on lease to Bruce Power L.P. and the corresponding forecasts included in approved nuclear regulated prices.

In its March 2013 decision and April 2013 order, the OEB ordered the portion of the balance in the Bruce Lease Net Revenues Variance Account as at December 31, 2012 related to the impact of the derivative liability embedded in the Bruce Power lease agreement (Bruce Lease) to be recovered on the basis of OPG's expected rent rebate payments to Bruce Power L.P. and associated income tax impacts. Effective January 1, 2013, OPG recorded amortization of the regulatory asset for this portion of the account on that basis.

The non-derivative portion of the balance as at December 31, 2012 was authorized by the OEB to be recovered over a 48-month period ending December 31, 2016. Effective January 1, 2013, OPG recorded amortization of the regulatory asset for the non-derivative portion of the account on a straight-line basis over this period.

Nuclear Liability Deferral Account

As per *Ontario Regulation 53/05*, the OEB has authorized the Nuclear Liability Deferral Account (NLDA) in connection with changes to OPG's liabilities for nuclear used fuel management and nuclear decommissioning and L&ILW management associated with the nuclear facilities owned and operated by OPG, which are comprised of the Pickering and Darlington nuclear generating stations. The deferral account records the revenue requirement impact associated with the changes in these liabilities arising from an approved reference plan, in accordance with the terms of the ONFA. During 2012, the Province approved the 2012 ONFA Reference Plan covering the period from 2012 to 2016, with an effective date of January 1, 2012. As the regulated prices in effect prior to November 1, 2014 did not reflect the impact of the 2012 ONFA Reference Plan, OPG recorded an increase to the regulatory asset for the NLDA during the period from January 1, 2012 to October 31, 2014.

Components of the increase in the regulatory asset for the NLDA relating to the above increase in liabilities, with reductions to corresponding expenses for the years ended December 31, 2014 and 2013 are summarized as follows:

(millions of dollars)	**2014**	**2013**
Fuel expense	**23**	26
Low and intermediate level waste management variable expenses [1]	**1**	1
Depreciation expense	**43**	52
Return on rate base [2]	**-**	2
Interest [3]	**-**	(2)
Income taxes	**15**	42
	82	121

[1] Amount was recorded as a reduction to OM&A expenses.

[2] Amount was recorded as a reduction to accretion on fixed asset removal and nuclear waste management liabilities.

[3] Amount in 2013 represents the write-off of interest recorded on the balance of the account as of December 31, 2012, pursuant to the OEB-approved Settlement Agreement.

In its March 2013 decision and April 2013 order, the OEB approved the recovery of a portion of the balance in the NLDA as at December 31, 2012 over a 24-month period ending December 31, 2014. Accordingly, effective January 1, 2013, OPG recorded amortization of the regulatory asset for this account on a straight-line basis over this period. As ordered by the OEB per the terms of the Settlement Agreement, effective January 1, 2013, no interest is recorded on the balance of this account.

Capacity Refurbishment Variance Account

Pursuant to *Ontario Regulation 53/05*, the OEB has authorized the Capacity Refurbishment Variance Account (CRVA). The account captures variances from forecasts reflected in the regulated prices for capital and non-capital costs incurred to increase the output of, refurbish, or add operating capacity to the regulated facilities. The balance in the account as at December 31, 2014 includes variances related to the Niagara Tunnel project, the refurbishment of the Darlington nuclear generating station, life extension initiatives at the Pickering nuclear generation station, and other projects.

OPG determines amounts to be recovered from, or refunded to, customers with respect to variances in capital costs as the difference from forecast depreciation expense and cost of capital associated with the in-service capital reflected in the regulated prices and associated income tax effects. The cost of capital amount in the account is calculated using the weighted average cost of capital, including a return on equity, as approved by the OEB in determining the regulated prices. In accordance with US GAAP, in recognizing a regulatory asset for the CRVA, OPG limits the portion of cost of capital additions recognized as a regulatory asset to the amount calculated using the average rate of capitalized interest applied to construction and development in progress.

As the regulated prices in effect prior to November 1, 2014 did not reflect the impact of the Niagara Tunnel declared in-service in March 2013, the CRVA additions for the period from January 1, 2014 to October 31, 2014 included $115 million (year ended December 31, 2013 – $114 million) to be recovered from ratepayers related to the Niagara Tunnel. This amount included $83 million (2013 – $83 million) for the capital cost component determined using the weighted average cost of capital. OPG recognized an increase of $86 million in the regulatory asset for the CRVA related to the Niagara Tunnel in 2014 (2013 – $88 million), of which $32 million (2013 – $32 million) represented the capital cost component determined using the average rate of five percent for capitalized interest applied to construction and development in progress for the year ended December 31, 2014 (2013 – five percent).

In its March 2013 decision and April 2013 order, the OEB approved the recovery of the nuclear non-capital cost portion of the account balance as at December 31, 2012 over a 24-month period ending December 31, 2014. Accordingly, effective January 1, 2013, OPG recorded amortization of the regulatory asset for this portion of the account on a straight-line basis over this period. In setting new regulated prices effective November 1, 2014, the OEB approved the recovery of the December 31, 2013 nuclear capital and hydroelectric portions of the account balance, totaling $112 million, over a 12-month period beginning on January 1, 2015.

Hydroelectric Surplus Baseload Generation Variance Account

The Hydroelectric Surplus Baseload Generation Variance Account records the impact of foregone production at OPG's regulated hydroelectric facilities due to surplus baseload generation conditions. The variance account was authorized by the OEB, effective March 1, 2011 for the previously regulated hydroelectric facilities. The OEB extended this account to the applicable newly regulated hydroelectric facilities effective November 1, 2014.

In its November 2014 decision and December 2014 order, the OEB approved the recovery of the account balance as at December 31, 2013 over a 12-month period beginning on January 1, 2015.

Nuclear Development Variance Account

The Nuclear Development Variance Account was established pursuant to *Ontario Regulation 53/05* and records differences between actual non-capital costs incurred by OPG in the course of planning and preparing for the development of proposed new nuclear facilities, and the forecast amount of these costs included in the nuclear regulated prices.

In its November 2014 decision, the OEB approved the recovery of the account balance as at December 31, 2013 over a 12-month period beginning on January 1, 2015.

Other Variance and Deferral Accounts

As at December 31, 2014 and 2013, regulatory assets for other variance and deferral accounts included amounts for the Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account.

As at December 31, 2014, regulatory assets for other variance and deferral accounts also included amounts for the Pension & OPEB Cash Versus Accrual Differential Deferral Account, the Pickering Life Extension Depreciation Variance Account, and the Pension & OPEB Cash Payment Variance Account. The Pickering Life Extension Depreciation Variance Account balance was recorded wholly during the period from November 1, 2014 to December 31, 2014. This balance represents an offset to the ratepayer credit for the reduction in depreciation expense for the Pickering nuclear generating station that was reflected both as a reduction to the new base regulated prices effective November 1, 2014 and the nuclear rate rider in effect to the end of 2014. The Pension & OPEB Cash Payment Variance Account records, effective November 1, 2014, the difference between OPG's actual contributions to its registered pension plans and expenditures on its OPEB and supplementary pension plans for the regulated business.

and the corresponding amounts reflected in the regulated prices. As at December 31, 2013, regulatory assets for other variance and deferral accounts also included the Tax Loss Variance Account and the Impact for USGAAP Deferral Account, the OEB-approved balances of which were fully amortized by December 31, 2014.

Regulatory liabilities for other variance and deferral accounts included amounts for the Income and Other Taxes Variance Account and the Hydroelectric Incentive Mechanism Variance Account. The Income and Other Taxes Variance Account includes deviations in income taxes for the regulated business, from those approved by the OEB in setting regulated prices and caused by changes in tax rates and rules, as well as reassessments. The Hydroelectric Incentive Mechanism Variance Account records a credit to ratepayers equal to 50 percent of OPG's Hydroelectric Incentive Mechanism net revenues above a specified threshold for the previously regulated hydroelectric facilities and, effective November 1, 2014, for the newly regulated hydroelectric facilities.

The regulatory liabilities for other variance and deferral accounts as at December 31, 2014 and the regulatory assets for other variance and deferral accounts as at December 31, 2013 also included amounts for the Ancillary Services Net Revenue Variance Account and the Hydroelectric Water Conditions Variance Account. The Ancillary Services Net Revenue Variance Account was authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices. The Hydroelectric Water Conditions Variance Account captures the impact of differences in regulated hydroelectric electricity production due to differences between forecast water conditions underlying the production forecast approved by the OEB in setting regulated hydroelectric prices, and the actual water conditions. Both of these accounts apply to the newly regulated hydroelectric stations effective November 1, 2014.

In its March 2013 decision and April 2013 order, the OEB approved the recovery or repayment of the majority of the balances of the other variance and deferral accounts as at December 31, 2012 over a 24-month period ending December 31, 2014. Accordingly, effective January 1, 2013, OPG recorded amortization of the applicable balances on a straight-line basis over this period.

Pension & OPEB Cash Versus Accrual Differential Deferral Account

The OEB established the Pension & OPEB Cash Versus Accrual Differential Deferral Account in its November 2014 decision. The deferral account records, effective November 1, 2014, the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis and the corresponding actual cash expenditures for these plans. The OEB established the deferral account as a result of determining that the pension and OPEB amounts reflected in the regulated prices effective November 1, 2014 would be limited to a forecast of OPG's cash expenditures on its pension and OPEB plans, rather than costs determined on an accrual basis in accordance with US GAAP. In making this determination, the OEB indicated that a generic proceeding on the regulatory treatment and recovery of pension and OPEB costs would be beneficial, and that the disposition of the deferral account balance will be based on the outcome of that proceeding. The scope or timing of the generic proceeding has not been announced.

During the year ended December 31, 2014, OPG recognized a regulatory asset of $88 million for the addition to the Pension & OPEB Cash Versus Accrual Differential Deferral Account. As directed by the OEB, no interest is recorded on the balance of this account.

Pension and OPEB Regulatory Asset

The Pension and OPEB Regulatory Asset represents unamortized amounts in respect of OPG's pension and OPEB plans that have been recognized in OCI and not yet reclassified into the amortization component of the benefit costs in respect of these plans. These amounts are expected to be recovered from ratepayers through future regulated prices. The regulatory asset is reversed as underlying unamortized balances are amortized in components of benefit costs. Refer to Note 3 for a detailed discussion of pension and OPEB cost recovery methodology under the heading *Rate Regulated Accounting*. The AOCI amounts related to pension and OPEB plans are presented in Note 11.

Deferred Income Taxes

OPG is required to recognize deferred income taxes associated with its rate regulated operations, including deferred income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a separate regulatory asset or liability for the amount of deferred income taxes expected to be included in future regulated prices and recovered from, or paid to, customers. Income taxes are discussed in Note 9.

6. LONG-TERM DEBT

Long-term debt consists of the following as at December 31:

(millions of dollars)	2014	2013
Long-term debt [1]		
Notes payable to the OEFC		
Senior Notes [2]		
3.43% due 2015	**500**	500
4.91% due 2016	**270**	270
5.35% due 2017	**900**	900
5.27% due 2018	**395**	395
5.44% due 2019	**365**	365
4.56% due 2020	**660**	660
4.28% due 2021	**185**	185
3.30% due 2022	**150**	150
3.12% due 2023	**40**	40
5.07% due 2041	**300**	300
4.38% due 2042	**200**	200
UMH Energy Partnership debt [3]		
Senior Notes		
7.86% due to 2041	**190**	193
Lower Mattagami Energy Limited Partnership [4]		
Senior Notes		
2.59% due 2015	**-**	92
2.35% due 2017	**200**	200
4.46% due 2021	**225**	225
3.53% due 2024	**200**	-
5.26% due 2041	**250**	250
5.05% due 2043	**200**	200
4.26% due 2046	**275**	275
4.26% due 2052	**225**	225
	5,730	5,625
Less: due within one year	**503**	5
Long-term debt	**5,227**	5,620

[1] The interest rates disclosed reflect the effective interest rate of the debt.

[2] OEFC senior debt is entitled to receive, in full, amounts owing in respect of the senior debt and is pari passu to the Lower Mattagami Energy Limited Partnership (LME) senior notes.

[3] These notes are secured by the assets of the Upper Mattagami and Hound Chute project. Principal repayments of approximately $3 million per year are paid on a semi-annual basis until maturity in 2041 at which time the remaining principal balance of $118 million becomes due.

[4] These notes are secured by the assets of the Lower Mattagami River project, including existing operating facilities and facilities being constructed, and are recourse to OPG until the recourse release date. These notes rank pari passu to the OEFC senior notes.

OPG maintained a credit facility with the OEFC related to the Niagara Tunnel project for an amount up to $1.6 billion which expired on December 31, 2014. As at December 31, 2014, advances under this facility were $1,065 million (2013 – $1,065 million).

OPG maintained a $500 million general corporate credit facility with the OEFC which expired on December 31, 2014 with no amounts outstanding. In December 2014, OPG entered into an agreement with the OEFC for an $800 million general corporate credit facility which expires on December 31, 2016, in support of its financing requirements for the period 2015-2016. As at December 31, 2014, there were no amounts outstanding under this facility.

Interest paid in 2014 was $273 million (2013 – $255 million), of which $264 million (2013 – $246 million) relates to interest paid on long-term corporate debt.

The book value of the pledged assets as at December 31, 2014 was $3,271 million (2013 – $2,756 million).

A summary of the contractual maturities of all long-term borrowings by year is as follows:

(millions of dollars)	
2015	**503**
2016	**273**
2017	**1,103**
2018	**398**
2019	**368**
Thereafter	**3,085**
	5,730

7. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In May 2014, OPG renewed and extended both tranches by one year to May 2019. As at December 31, 2014 and 2013, there were no outstanding borrowings under the bank credit facility.

The LME maintains a $600 million bank credit facility to support the funding requirements for the Lower Mattagami River project. The facility consists of two tranches. In August 2014, OPG extended the maturity of the first tranche to August 2019, from August 2018. The second tranche matures in August 2015. As at December 31, 2014, no external commercial paper was outstanding under this program (2013 – $32 million).

As at December 31, 2014, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $390 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at December 31, 2014, a total of $336 million of Letters of Credit had been issued. This included $310 million for the supplementary pension plans, $25 million for general corporate purposes, and $1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables. In September 2014, the maximum amount of co-ownership interest that can be sold under this agreement was reduced to $150 million and the expiry date was extended from November 30, 2014 to November 30, 2016. As at December 31, 2014, there were

Letters of Credit outstanding under this agreement of $150 million (2013 – $80 million), which were issued in support of OPG's supplementary pension plans.

In October 2014, UMH Energy Partnership (UMH) entered into an $8 million of short-term, uncommitted overdraft facility and $16 million of irrevocable, standby letters of credit facilities in support of its operations. As at December 31, 2014, a total of $14 million of Letters of Credit had been issued under this facility.

The following table summarizes the net interest expense for the years ended December 31:

(millions of dollars)	2014	2013
Interest on long-term debt	**291**	280
Interest on short-term debt	**9**	9
Interest income	**(10)**	(10)
Interest capitalized to property, plant and equipment and intangible assets	**(135)**	(127)
Interest related to regulatory assets and liabilities [1]	**(75)**	(66)
Net interest expense	**80**	86

[1] Includes interest to recognize the cost of financing related to regulatory assets and liabilities, as authorized by the OEB, and interest deferred in the Capacity Refurbishment Variance Account and the Bruce Lease Net Revenues Variance Account.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis consist of the following as at December 31:

(millions of dollars)	2014	2013
Liability for nuclear used fuel management	**10,459**	9,957
Liability for nuclear decommissioning and low and intermediate level waste management	**6,204**	5,946
Liability for non-nuclear fixed asset removal	**365**	354
Fixed asset removal and nuclear waste management liabilities	**17,028**	16,257

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31 are as follows:

(millions of dollars)	2014	2013
Liabilities, beginning of year	**16,257**	15,522
Increase in liabilities due to accretion [1]	**867**	826
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	**116**	109
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(212)**	(199)
Change in the liabilities for non-nuclear fixed asset removal	**-**	(1)
Liabilities, end of year	**17,028**	16,257

[1] The increase in liabilities due to accretion for 2014 excludes the impact of regulatory variance and deferral accounts.

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear, thermal generating plant facilities, and other facilities. Costs will be incurred for activities such as preparation for safe storage, safe storage, dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites, and the ongoing and long-term management of nuclear used fuel and L&ILW waste material. Under the terms of the Bruce agreement, OPG continues to be primarily responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions since these programs are long-term in nature. The most recent update of the cost estimates for the nuclear waste management and decommissioning liabilities is contained in the approved 2012 ONFA Reference Plan.

For the purposes of calculating OPG's nuclear fixed asset removal and nuclear waste management liabilities, as at December 31, 2014, consistent with the current accounting end of life assumptions, nuclear station decommissioning is projected to occur over the next 40 years. The estimates for the Nuclear Liabilities include cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shut down and to 2071 for placement of used fuel into the long-term disposal repository followed by extended monitoring.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, end of life dates, financial indicators, or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal NFWA, proclaimed into force in 2002, requires that Canada's nuclear fuel waste owners form a nuclear waste management organization, and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date of 2035 at the earliest.

Liability for Nuclear Decommissioning and L&ILW Management Costs

The liability for nuclear decommissioning and L&ILW management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing L&ILW generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis, where the reactors will remain in a safe storage state for a 30-year period prior to an approximate 10-year dismantlement period.

The life cycle costs of L&ILW management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of the ultimate long-term management of these wastes. The current assumptions used to establish the accrued L&ILW management costs include a L&ILW deep geologic repository. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of L&ILW adjacent to the Western Waste Management Facility. OPG has suspended design activities for the L&ILW deep geologic repository pending receipt of the site preparation and construction licence.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal primarily represents the estimated costs of decommissioning OPG's thermal generating stations at the end of their services lives. The liability is based on third-party cost estimates after an in-depth review of plant sites and an assessment of required clean-up and restoration activities. In 2011, OPG completed a review of the liability for most of its thermal generating stations. For the purpose of measuring the liability, asset removal activities are estimated to take place over the next 15 years.

As at December 31, 2014, in addition to the $143 million liability for active sites, OPG has an ARO of $222 million for decommissioning and restoration costs associated with plant sites that are not currently in use for electricity generation, including the Nanticoke and Lambton generating stations.

Ontario Nuclear Funds Agreement

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal, long-term L&ILW management, and certain costs for used fuel storage incurred after the stations are shutdown. As at December 31, 2014, the Decommissioning Fund was in an overfunded position.

The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability of cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $13.7 billion in present value dollars as at December 31, 2014, based on used fuel bundle projections of 2.23 million bundles, consistent with the station life assumptions included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2014 under the ONFA was $139 million (2013 – $184 million), including a contribution to the Ontario NFWA Trust (the Trust) of $161 million (2013 – $154 million). The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, may be applied towards OPG's ONFA payment obligations. Based on the approved 2012 ONFA Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from $143 million to $288 million over the years 2015 to 2019. The required contributions are disclosed in Note 15.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC) since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the CNSC consolidated financial guarantee requirement and the value of the Nuclear Funds. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The current value of the Provincial Guarantee amount of $1,551 million is in effect through to the end of 2017. In each of January 2014 and 2015, OPG paid a guarantee fee of $8 million based on a Provincial Guarantee amount of $1,551 million.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funds in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund assets over the estimated completion costs, as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements by recording a payable to the Province, such that the balance of the Decommissioning Fund is equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province may be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its annual earnings at 3.25 percent plus long-term Ontario Consumer Price Index (CPI), which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status.

Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund and the OEFC would be entitled to a distribution of an equal amount. In such instances, OPG recognizes 50 percent of the excess greater than 120 percent in income. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next liability reference plan review.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across geographic markets, as well as investments in infrastructure and Canadian real estate. The Nuclear Funds are invested to fund long-term liability requirements and, as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario CPI for funding related to the first 2.23 million used fuel bundles (committed return). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return determined based on the fair value of the Used Fuel Fund's assets related to the first 2.23 million used fuel bundles is recorded as due to or due from the Province. The amount due to or due from the Province represents the amount OPG would pay to or receive from the Province if the committed return were to be settled as of the consolidated balance sheet date. As prescribed under the ONFA, OPG's contributions for fuel bundles in excess of 2.23 million are not subject to the Province's guaranteed rate of return, and earn a return based on changes in the market value of the assets of the Used Fuel Fund.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities based on the most recently approved ONFA Reference Plan.

Nuclear Funds

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

	Fair Value	
(millions of dollars)	**2014**	**2013**
Decommissioning Fund	**7,346**	6,591
Due to Province – Decommissioning Fund	**(1,100)**	(624)
	6,246	5,967
Used Fuel Fund [1]	**9,562**	8,519
Due to Province – Used Fuel Fund	**(1,429)**	(990)
	8,133	7,529
Total Nuclear Funds	**14,379**	13,496
Less: current portion	**25**	25
Non-current Nuclear Funds	**14,354**	13,471

[1] The Ontario NFWA Trust represented $3,114 million as at December 31, 2014 (2013 – $2,668 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds as at December 31 is as follows:

(millions of dollars)	Fair Value 2014	 2013
Cash and cash equivalents and short-term investments	**464**	262
Alternative investments	**1,003**	598
Pooled funds	**1,293**	2,173
Marketable equity securities	**8,176**	7,332
Fixed income securities	**5,969**	4,713
Net receivables/payables	**3**	32
	16,908	15,110
Due to Province	**(2,529)**	(1,614)
	14,379	13,496

The nature and type of investments made by OPG have the attributes of an investment company in accordance with ASC Topic 946. As such, beginning January 1, 2014, the Company applied guidance outlined in ASC Topic 946 for all investments owned by the Nuclear Funds. OPG's consolidated financial statements retained investment company accounting for the Nuclear Funds. The adoption of investment company accounting for the Nuclear Funds did not result in an effect on net income or change in net assets from operations, as investments held by OPG's Nuclear Funds continue to be recorded at fair value.

The investments in the Nuclear Funds are segregated from other assets in the consolidated group that are not investment companies.

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains, and fair value of the Nuclear Funds as of December 31, 2014 and 2013 are summarized as follows:

		2014	
(millions of dollars)	**Decommissioning Fund**	**Used Fuel Fund**[1]	**Total**
Historical cost	**6,188**	**8,163**	**14,351**
Gross unrealized gains (losses)			
Aggregate appreciation	**1,218**	**1,441**	**2,659**
Aggregate depreciation	**(150)**	**(174)**	**(324)**
Foreign exchange	**90**	**132**	**222**
	7,346	**9,562**	**16,908**
Due to Province	**(1,100)**	**(1,429)**	**(2,529)**
Total fair value	**6,246**	**8,133**	**14,379**
Less: current portion	**7**	**18**	**25**
Non-current fair value	**6,239**	**8,115**	**14,354**

[1] The Ontario NFWA Trust represented $3,114 million as at December 31, 2014 of the Used Fuel Fund on a fair value basis.

(millions of dollars)	2013 Decommissioning Fund	 Used Fuel Fund [1]	 Total
Historical cost	5,571	7,240	12,811
Gross unrealized gains (losses)			
Aggregate appreciation	1,111	1,365	2,476
Aggregate depreciation	(118)	(136)	(254)
Foreign exchange	27	50	77
	6,591	8,519	15,110
Due to Province	(624)	(990)	(1,614)
Fair value	5,967	7,529	13,496
Less: current portion	12	13	25
Non-current fair value	5,955	7,516	13,471

[1] The Ontario NFWA Trust represented $2,668 million as at December 31, 2013 of the Used Fuel Fund on a fair value basis.

Net realized and unrealized gains or losses from investments for the years ended December 31, 2014 and 2013 are summarized as follows:

(millions of dollars)	2014 Decommissioning Fund	 Used Fuel Fund	 Total
Net realized gains			
Realized gains	**401**	**545**	**946**
Realized foreign exchange gains	**36**	**36**	**72**
Net realized gains	**437**	**581**	**1,018**
Net unrealized gains			
Unrealized gains	**75**	**38**	**113**
Unrealized foreign exchange gains	**63**	**82**	**145**
Net unrealized gains	**138**	**120**	**258**

(millions of dollars)	2013 Decommissioning Fund	 Used Fuel Fund	 Total
Net realized gains			
Realized gains	182	174	356
Realized foreign exchange losses	(9)	(8)	(17)
Net realized gains	173	166	339
Net unrealized gains			
Unrealized gains	410	639	1,049
Unrealized foreign exchange gains	97	114	211
Net unrealized gains	507	753	1,260

The change in the Nuclear Funds for the years ended December 31 is as follows:

(millions of dollars)	Fair Value 2014	2013
Decommissioning Fund, beginning of year	**5,967**	5,707
Increase in fund due to return on investments	**782**	854
Decrease in fund due to reimbursement of expenditures	**(27)**	(34)
Increase in due to Province	**(476)**	(560)
Decommissioning Fund, end of year	**6,246**	5,967
Used Fuel Fund, beginning of year	**7,529**	7,010
Increase in fund due to contributions made	**139**	184
Increase in fund due to return on investments	**954**	1,131
Decrease in fund due to reimbursement of expenditures	**(50)**	(41)
Increase in due to Province	**(439)**	(755)
Used Fuel Fund, end of year	**8,133**	7,529

The earnings from the Nuclear Funds during 2014 and 2013 were impacted by the Bruce Lease Net Revenues Variance Account authorized by the OEB. The earnings on the Nuclear Funds for the years ended December 31 are as follows:

(millions of dollars)	2014	2013
Decommissioning Fund	**306**	294
Used Fuel Fund	**515**	376
Bruce Lease Net Revenues Variance Account	**(107)**	(42)
Total earnings	**714**	628

9. INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments. The Company records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers for generation from OPG's regulated facilities.

During 2014, OPG recorded a decrease in the deferred income tax liability for the income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $22 million (2013 – $109 million). Since these deferred income taxes are expected to be refunded through future regulated prices, OPG recorded a corresponding decrease to the regulatory asset for deferred income taxes. As a result, the deferred income tax expense for 2014 and 2013 was not impacted.

The amount of tax refunds received net of taxes paid during 2014 was $29 million (the amount of taxes paid during 2013 was $14 million).

The following table summarizes the deferred income tax liabilities recorded for the rate regulated operations that are expected to be recovered through future regulated prices:

(millions of dollars)	2014	2013
January 1:		
Deferred income tax liabilities on temporary differences related to regulated operations	**418**	500
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	**141**	168
	559	668
Impact of regulation of the newly regulated facilities:		
Deferred income tax liabilities on temporary differences as of June 30, related to the hydroelectric facilities prescribed for regulation effective in 2014 *(Note 3)*	**243**	-
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes related to the regulation of hydroelectric facilities effective in 2014 *(Note 3)*	**81**	-
	883	668
Changes during the year:		
Decrease in deferred income tax liabilities on temporary differences related to regulated operations, including newly regulated hydroelectric facilities effective July 1, 2014	**(17)**	(82)
Decrease in deferred income tax liabilities resulting from the regulatory asset for deferred income taxes, including newly regulated hydroelectric facilities effective July 1, 2014	**(5)**	(27)
Balance at December 31	**861**	559

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	2014	2013
Income before income taxes and extraordinary item	**707**	166
Combined Canadian federal and provincial statutory enacted income tax rates	**26.5%**	26.5%
Statutory income tax rates applied to accounting income	**187**	44
(Decrease) increase in income taxes resulting from:		
Income tax components of regulatory variance and deferral accounts	**(79)**	(102)
Non-taxable income items	**(6)**	(3)
Regulatory asset for deferred income taxes	**25**	113
Scientific Research and Experimental Development investment tax credits	**(16)**	(22)
Other	**28**	1
	(48)	(13)
Income tax expense	**139**	31
Effective rate of income taxes	**19.7%**	18.7%

Significant components of the income tax expense are presented in the table below:

(millions of dollars)	2014	2013
Current income tax expense (recovery):		
Current payable	**123**	48
Change in income tax positions	**(15)**	9
Income tax components of regulatory variance and deferral accounts	**(10)**	9
Scientific Research and Experimental Development investment tax credits	**(29)**	(30)
Other	**14**	7
	83	43
Deferred income tax expense (recovery):		
Change in temporary differences	**10**	(14)
Income tax components of regulatory variance and deferral accounts	**(6)**	(111)
Regulatory asset for deferred income taxes	**2**	113
	5	(12)
Income tax expense	**13**	31

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities as at December 31 are as follows:

(millions of dollars)	201	2013
Deferred income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**4,24**	4,055
Other liabilities and assets	**1,97**	1,672
Future recoverable Ontario minimum tax	**1**	30
	6,23	5,757
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets	**(1,42)**	(1,463)
Nuclear fixed asset removal and nuclear waste management funds	**(3,59)**	(3,374)
Other liabilities and assets	**(1,98)**	(1,499)
	(7,05)	(6,336)
Net deferred income tax liabilities	**(82)**	(579)
Represented by:		
Current portion – asset (liability)		(14)
Long-term portion – liability	**(83)**	(565)
	(82)	(579)

The tax benefit associated with an income tax position is recognized only when it is more likelthan not that such a position will be sustained upon examination by the taxing authorities based on the technical mits of the position. The current and deferred income tax benefit is equal to the largest amount, considering possib settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxig authorities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(millions of dollars)	2014	2013
Unrecognized tax benefits, beginning of year	91	82
Additions based on tax positions related to the current year	11	13
Additions for tax positions of prior years	12	-
Reductions for tax positions of prior years	(35)	(4)
Unrecognized tax benefits, end of year	79	91

As at December 31, 2014, OPG's unrecognized tax benefits were $79 million (2013 – $91 million), excluding interest and penalties, all of which, if recognized, would affect OPG's effective tax rate. Changes in unrecognized tax benefits over the next 12 months cannot be predicted with certainty.

OPG recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As at December 31, 2014, OPG has recorded interest on unrecognized tax benefits of $6 million (2013 – $10 million). OPG considers its significant tax jurisdiction to be Canada. OPG remains subject to income tax examination for years after 2010.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of taxes, during the years ended December 31, 2014 and 2013 are as follows:

	2014		
(millions of dollars)	Unrealized Gains and Losses on Cash Flow Hedges [1]	Pension and Other Post-Employment Benefits [1]	Total [1]
AOCL, beginning of year	(129)	(655)	(784)
Net loss on cash flow hedges	(2)	-	(2)
Recognition of initial pension and OPEB regulatory asset for amounts recorded prior to regulation of facilities, effective July 1, 2014 *(Note 3)*	-	184	184
Actuarial loss on re-measurement of liabilities for pension and other post-employment benefits	-	(35)	(35)
Amounts reclassified from AOCL	14	27	41
Other comprehensive income for the year	12	176	188
AOCL, end of year	(117)	(479)	(596)

[1] All amounts are net of income taxes.

(millions of dollars)	2013 Unrealized Gains and Losses on Cash Flow Hedges [1]	 Pension and Other Post-Employment Benefits [1]	 Total [1]
AOCL, beginning of year	(156)	(823)	(979)
Net gain on cash flow hedges	14	-	14
Actuarial gain and past service credits on re-measurement of liabilities for pension and other post-employment benefits	-	226	226
Amounts reclassified from AOCL	13	42	55
Other comprehensive income (loss) for the year	27	268	295
AOCL, end of year	(129)	(555)	(684)

[1] All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the years ended December 31, 2014 and 2013 are as follows:

(millions of dollars)	Amount Reclassified from AOCL 2014	 2013	Statement of Income Line Item
Amortization of losses from cash flow hedges			
Losses	16	15	Net interest expense
Income tax expense	(2)	(2)	
	14	13	
Amortization of amounts related to pension and other post-employment benefits			
Actuarial losses and past service costs	37	57	See (1) below
Income tax expense	(10)	(15)	
	27	42	
Total reclassifications for the year	41	55	

[1] These AOCL components are included in the computation of pension and OPEB costs (see Note 11 for additional details).

11. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Fund Assets

The OPG registered pension fund investment guidelines are stated in an approved Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and approved by OPG's Audit and Finance Committee at least annually and includes a discussion regarding investment objectives and expectations, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective to meet obligations of the plan as they come due. The pension fund assets are invested in three categories of asset classes. The first category is liability hedging assets which are intended to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets which are intended to obtain higher investment returns compared to the returns expected for liability hedging assets. The third category is return diversifying strategies which are intended to improve the overall return of the pension fund while controlling the amount of downside market risk.

To achieve the above objective, OPG has adopted the following target strategic asset allocation:

	Target
Asset Class	
Liability Hedging Assets	50%
Return Enhancing Assets	40%
Return Diversifying Assets	10%

The plan may enter into derivative securities, such as interest rate swaps and forward foreign exchange contracts, for risk management purposes, where such activity is consistent with its investment objective.

Significant Concentrations of Risk in Fund Assets

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian government, provincial bonds, government agency bonds, real return bonds, corporate bonds, and an interest rate overlay hedging program, which is disclosed under pooled funds. Equity securities are diversified across Canadian, US, and non-North American stocks. There are also real estate and infrastructure portfolios that are approximately five percent of the total pension fund assets. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk with respect to the pension fund's fixed income securities is managed by risk tolerance guidelines, which requires that fixed income securities comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality. Credit risk, as it relates to the pension fund's derivatives, is managed through the use of International Swap and Derivatives Association documentation and counterparty management performed by the fund's investment managers.

Risk Management

Risk management oversight with respect to the pension fund includes but is not limited to the following activities:

- Periodic asset/liability management and strategic asset allocation studies
- Monitoring of funding levels and funding ratios
- Monitoring compliance with asset allocation guidelines and investment management agreements
- Monitoring asset class performance against asset class benchmarks
- Monitoring investment manager performance against benchmarks
- Monitoring of risk tolerance guidelines

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on the fund's asset allocation, as well as the expected return considering long-term historical risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

Fair Value Measurements

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities. Refer to Note 13 for a detailed discussion of fair value measurements and the fair value hierarchy.

The following tables present pension plan assets measured at fair value in accordance with the fair value hierarchy:

(millions of dollars)	December 31, 2014 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**201**	-	-	**201**
Short term investments	-	**3**	-	**3**
Fixed income				
Corporate debt securities	-	**340**	-	**340**
Non-US government bonds	-	**1,704**	-	**1,704**
Equities				
Canadian	**1,925**	-	-	**1,925**
US	**2,016**	-	-	**2,016**
Non-North American	**2,147**	-	-	**2,147**
Pooled funds	**12**	**2,449**	**866**	**3,327**
Infrastructure	-	-	**338**	**338**
Real estate	-	-	**300**	**300**
Other	-	-	**5**	**5**
	6,301	**4,496**	**1,509**	**12,306** [1]

[1] The table above excludes pension fund receivables and payables.

(millions of dollars)	December 31, 2013 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	320	-	-	320
Short term investments	-	5	-	5
Fixed income				
Corporate debt securities	-	315	-	315
Non-US government bonds	-	1,514	-	1,514
Equities				
Canadian	2,087	-	-	2,087
US	2,031	-	-	2,031
Non-North American	2,357	-	-	2,357
Pooled funds	38	1,959	11	2,008
Infrastructure	-	-	208	208
Real estate	-	-	210	210
Other	-	2	-	2
	6,833	3,795	429	11,057 [1]

[1] The table above exclude pension fund receivables and payables.

The following tables present the changes in the fair value of financial instruments classified in Level 3:

(millions of dollars)	Pooled Funds	For the years ended December 31 Infrastructure	Real Estate	Other	Total
Opening balance, January 1, 2013	8	160	72	-	240
Total realized and unrealized gains	3	19	6	-	28
Purchases, sales, and settlements	-	29	132	-	161
Closing balance, December 31, 2013	11	208	210	-	429
Transfer from Level 2 to Level 3	-	-	-	**2**	**2**
Total realized and unrealized gains	**69**	**37**	**76**	-	**182**
Purchases, sales, and settlements	**786**	**93**	**14**	**3**	**896**
Closing balance, December 31, 2014	**866**	**338**	**300**	**5**	**1,509**

During the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2.

Plan Costs and Liabilities

Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables:

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2014	**2013**	**2014**	**2013**
Weighted Average Assumptions – Benefit Obligations at Year-End				
Rate used to discount future benefits	**4.00%**	4.90%	**4.03%**	4.91%
Salary schedule escalation rate - next six years	**2.00%**	2.50%	**2.50%**	2.50%
- thereafter	**2.50%**	2.50%	**2.50%**	2.50%
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**6.09%**	6.19%
Ultimate health care trend rate	**n/a**	n/a	**4.33%**	4.34%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post-Employment Benefits	
	2014	**2013**	**2014**	**2013**
Weighted Average Assumptions – Costs for the Year				
Expected return on plan assets, net of expenses	**6.25%**	6.25%	**n/a**	n/a
Rate used to discount future benefits	**4.90%**	4.30%	**4.90%**	4.32%
Salary schedule escalation rate	**2.50%**	2.50%	**2.50%**	2.50
Rate of cost of living increase to pensions	**2.00%**	2.00%	**n/a**	n/a
Initial health care trend rate	**n/a**	n/a	**6.19%**	6.38%
Ultimate health care trend rate	**n/a**	n/a	**4.34%**	4.38%
Year ultimate health care trend rate reached	**n/a**	n/a	**2030**	2030
Rate of increase in disability benefits	**n/a**	n/a	**2.00%**	2.00%
Expected average remaining service life for employees (years)	**12**	13	**13**	14

(millions of dollars)	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Components of Cost Recognized						
Current service costs	**238**	291	**8**	10	**64**	106
Interest on projected benefit obligation	**650**	589	**14**	13	**135**	139
Expected return on plan assets, net of expenses	**(628)**	(648)	**-**	-	[illegible]	-
Amortization of past service costs [1]	**-**	-	**-**	-	**-**	1
Amortization of net actuarial loss [1]	**260**	244	**4**	6	**6**	48
Recognition of LTD net actuarial gain	**-**	-	**-**	-	**(3)**	(32)
Costs recognized [2]	**528**	476	**26**	29	**202**	262

[1] The amortization of past service costs and net actuarial loss was recognized as an increase to OCI. This increase was partially offset by the impact of the Pension and OPEB Regulatory Asset as discussed in Note 5.

[2] Excludes the impact of regulatory variance and deferral accounts. These regulatory accounts are discussed in Note 5.

Total benefit costs, including the impact of the Pension and OPEB Cost Variance Account, the Pension & OPEB Cash Payment Variance Account, the Pension & OPEB Cash Versus Accrual Differential Deferral Account, for the years ended December 31 are as follows:

(millions of dollars)	**2014**	**2013**
Registered pension plans	**528**	476
Supplementary pension plans	**26**	29
Other post-employment benefits	**202**	262
Pension and OPEB Cost Variance Account *(Note 5)*	**(254)**	(312)
Pension & OPEB Cash Payment Variance Account *(Note 5)*	**(6)**	-
Pension & OPEB Cash Versus Accrual Differential Deferral Account *(Note 5)*	**(36)**	-
Pension and other post-employment benefit costs	**460**	455

The pension and OPEB obligations and the pension fund assets measured as at December 31 are as follows:

	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post-Employment Benefits**	
(millions of dollars)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Change in Plan Assets						
Fair value of plan assets at beginning of year	**10,961**	10,337	**-**	-	**-**	-
Contributions by employer	**364**	306	**16**	14	**93**	87
Contributions by employees	**70**	74	**-**	-	**-**	-
Actual return on plan assets, net of expenses	**1,677**	923	**-**	-	**-**	-
Benefit payments	**(665)**	(679)	**(16)**	(14)	**(93)**	(87)
Fair value of plan assets at end of year	**12,407**	10,961	**-**	-	**-**	-
Change in Projected Benefit Obligations						
Projected benefit obligations at beginning of year	**13,422**	13,669	**289**	297	**2,719**	3,174
Employer current service costs	**238**	291	**8**	10	**64**	106
Contributions by employees	**70**	74	**-**	-	**-**	-
Interest on projected benefit obligation	**658**	589	**14**	13	**135**	139
Benefit payments	**(665)**	(679)	**(16)**	(14)	**(93)**	(87)
Past service credits	**-**	-	**-**	-	**-**	(2)
Net actuarial loss (gain)	**1,946**	(522)	**22**	(17)	**318**	(611)
Projected benefit obligations at end of year	**15,669**	13,422	**317**	289	**3,143**	2,719
Funded status – deficit at end of year	**(3,262)**	(2,461)	**(317)**	(289)	**(3,143)**	(2,719)

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheets as at December 31:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2014	2013	2014	2013	2014	2013
Current liabilities	**-**	-	**(9)**	(9)	**(93)**	(91)
Non-current liabilities	**(3,262)**	(2,461)	**(308)**	(280)	**(3,050)**	(2,628)
Total liabilities	**(3,262)**	(2,461)	**(317)**	(289)	**(3,143)**	(2,719)

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2014 are $14,333 million and $274 million, respectively (2013 – $12,242 million and $237 million, respectively). The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of OPG's OCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset as discussed in Note 5 for the years ended December 31, on a pre-tax basis:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2014	2013	2014	2013	2014	2013
Changes in plan assets and benefit obligations recognized in OCI						
Current year net actuarial loss (gain)		(797)	**22**	(17)	**321**	(579)
Current year past service credits		-	**-**	-	**-**	(2)
Amortization of net actuarial loss		(244)	**(4)**	(6)	**(6)**	(48)
Amortization of past service costs		-	**-**	-	**-**	(1)
Total decrease (increase) in OCI		(1,041)	**18**	(23)	**315**	(630)
Less: Increase (decrease) in Pension and OPEB Regulatory Asset, excluding extraordinary gain *(Note 5)*		(814)	**19**	(18)	**289**	(504)
Less: Recognition of initial Pension & OPEB regulatory asset related to facilities prescribed for rate regulation beginning in 2014 *(Note 3)*		-	**5**	-	**21**	-
Net (increase) decrease in OCI (pre-tax)		(227)	**(6)**	(5)	**5**	(126)

The following table provides the components of OPG's AOCL and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31, on a pre-tax basis:

	Registered Pension Plans		Supplementary Pension Plans		Other Post-Employment Benefits	
(millions of dollars)	2014	2013	2014	2013	2014	2013
Unamortized amounts recognized in AOCL						
Past service costs	**-**	-	**-**	-	**1**	1
Net actuarial loss	**4,133**	3,496	**97**	79	**638**	323
Total recognized in AOCL	**4,133**	3,496	**97**	79	**639**	324
Less: Pension and OPEB Regulatory Asset *(Note 5)*	**3,702**	2,831	**88**	64	**573**	263
Net recognized in AOCL (pre-tax)	**431**	665	**9**	15	**66**	61

The following table provides the components of OPG's AOCI and the offsetting Pension and OPEB Regulatory Asset as at December 31 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as increases to OCI and reductions in the Pension and OPEB Regulatory Asset, related to the currently regulated facilities, in 2015, on a pre-tax basis:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
Net actuarial loss	**292**	**6**	**27**
Total increase in AOCI	**292**	**6**	**27**
Less: Estimated decrease in Pension and OPEB Regulatory Asset	**261**	**5**	**25**
Net increase in AOCI (pre-tax)	**31**	**1**	**2**

Based on the most recently filed actuarial valuation, for funding purposes, of the OPG registered pension plan, as at January 1, 2014, there was an unfunded liability on a going-concern basis of $1,143 million and a deficiency on a wind-up basis of $7,034 million. In the previously filed actuarial valuation, as at January 1, 2011, there was an unfunded liability on a going-concern basis of $555 million and a deficiency on a wind-up basis of $5,663 million. The funded status to be determined in the next filed funding valuation, which must have an effective date no later than January 1, 2017, could be significantly different. For 2015, OPG's required contribution to its registered pension plan is expected to be $364 million. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time. OPG will continue to assess the requirements for contributions to the pension plan.

Based on the most recently filed actuarial valuation, for funding purposes, of the NWMO registered pension plan, as at January 1, 2014, there was a surplus on a going-concern basis of $23 million and a deficiency on a wind-up basis of $1 million. In the previously filed actuarial valuation, as at January 1, 2013, there was a surplus on a going-concern basis of $14 million and a deficiency on a wind-up basis of $15 million. The next filed funding valuation must have an effective date no later than January 1, 2015.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $310 million as at December 31, 2014 (2013 – $302 million).

Estimated future benefit payments to participants in the pension and OPEB plans based on the assumptions used to measure the benefit obligations as at December 31, 2014 are as follows:

(millions of dollars)	Registered Pension Plans	Supplementary Pension Plans	Other Post-Employment Benefits
2015	563	10	93
2016	590	11	97
2017	596	11	101
2018	634	12	107
2019	666	13	112
2020 through 2024	3,788	77	636

A one percent increase or decrease in the health care trend rate would result in an increase in the current service and interest components of the 2014 OPEB cost recognized of $42 million (2013 – $54 million) or a decrease in the service and interest components of the 2014 OPEB cost recognized of $31 million (2013 – $39 million). A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2014 of $567 million (2013 – $472 million) or a decrease in the projected OPEB obligation at December 31, 2014 of $432 million (2013 – $360 million).

12. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in market interest rates on debt expected to be issued in the future, and movements in foreign currency that affect its assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

The LME has entered into forward start interest rate swaps to hedge against the effect of future changes in interest rates for long-term debt for the Lower Mattagami River project. All forward interest rate swap contracts have been offset or settled since the second quarter of 2014.

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and contractual arrangements for a significant portion of OPG's business. Effective November 1, 2014, virtually all of this exposure was mitigated with the implementation of a regulated price for OPG's 48 previously unregulated hydroelectric facilities, which were prescribed for regulation beginning in 2014.

The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative. Assumptions related to future electricity prices impact the valuation of the derivative liability embedded in the Bruce Lease.

OPG's foreign exchange exposure is attributable to two primary factors: US dollar denominated transactions such as the purchase of fuels. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the IESO-administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at December 31, 2014 was less than $1 million.

The following is a summary of OPG's derivative instruments:

	2014			
(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at December 31, 2014				
Derivative embedded in the Bruce Lease	**n/a**	**5 years**	**(302)**	Long-term accounts payable and accrued charges
Other derivative instruments	**various**	**various**	**11**	Various
Total derivatives			**(291)**	

(millions of dollars except where noted)	2013 Notional Quantity	Terms	Fair Value	Balance Sheet Line Item
Derivative embedded in the Bruce Lease	n/a	6 years	(346)	Long-term accounts payable and accrued charges
Other derivative instruments	various	various	(8)	Various
Total derivatives			(354)	

The following table shows the amount related to derivatives recorded in AOCL and income for the years ended December 31:

(millions of dollars)	2014	2013
Cash flow hedges (recorded in AOCL)		
(Loss) gain in OCI	**(3)**	17
Reclassification of losses to net interest expense	**19**	18
Reclassification of gains to fuel expense	**(3)**	(3)
Commodity derivatives (recorded in income)		
Realized losses in revenue	**(11)**	(7)
Unrealized gains (losses) in revenue	**9**	(4)
Embedded derivative (recorded in income)		
Unrealized gains (losses) in revenue [1]	**44**	(33)

[1] Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of $20 million deferred in AOCL as at December 31, 2014 are expected to be reclassified to net income within the next 12 months.

13. FAIR VALUE MEASUREMENTS

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels, based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at December 31:

	Fair Value		Carrying Value[1]		
(millions of dollars)	**2014**	**2013**	**2014**	**2013**	**Balance Sheet Line Item**
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	**14,379**	13,496	**14,379**	13,496	Nuclear fixed asset removal and nuclear waste management funds
Payable related to cash flow hedges	**(63)**	(56)	**(63)**	(56)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**(302)**	(346)	**(302)**	(346)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(6,326)**	(5,955)	**(5,730)**	(5,625)	Long-term debt
Other financial instruments	**19**	1	**19**	1	Various

[1] The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other accounts receivable and prepaid expenses, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

The following tables present assets and liabilities measured at fair value in accordance with the fair value hierarchy:

	December 31, 2014			
(millions of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Decommissioning Fund	3,069	2,787	390	6,246
Used Fuel Fund	617	7,444	72	8,133
Other financial instruments	4	5	16	25
Total	3,690	10,236	478	14,404
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(302)	(302)
Other financial instruments	(3)	(3)	-	(6)
Total	(3)	(3)	(302)	(308)
Net assets	3,687	10,233	176	14,096

	December 31, 2013			
(millions of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Decommissioning Fund	3,005	2,715	247	5,967
Used Fuel Fund	526	6,961	42	7,529
Other financial instruments	5	3	12	20
Total	3,536	9,679	301	13,516
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(346)	(346)
Other financial instruments	(8)	(11)	-	(19)
Total	(8)	(11)	(346)	(365)
Net assets (liabilities)	3,528	9,668	(45)	13,151

During the year ended December 31, 2014, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

The following tables present the changes in OPG's assets and liabilities measured at fair value based on Level 3:

(millions of dollars)	Decom-missioning Fund	Used Fuel Fund	Derivative Embedded in the Bruce Lease [1]	Other financial instruments
Opening balance, January 1, 2013	163	13	(392)	13
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds [1]	18	3	-	-
Unrealized losses included in revenue	-	-	(33)	(1)
Realized losses included in revenue	(1)	-	-	(2)
Purchases	83	14	-	2
Sales	(3)	-	-	-
Settlements	(13)	12	79	-
Closing balance, December 31, 2013	247	42	(346)	12
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds [1]	20	4	-	-
Unrealized gains included in revenue	-	-	44	2
Realized gains (losses) included in revenue	1	-	-	(11)
Purchases	148	28	-	13
Sales	(12)	(2)	-	-
Settlements	(14)	-	-	-
Closing balance, December 31, 2014	390	72	(302)	16

[1] Total gains (losses) exclude the impact of the Bruce Lease Net Revenues Variance Account.

Derivative Embedded in the Bruce Lease

The revenue from the Bruce Lease is reduced in each calendar year where the expected future annual arithmetic average hourly Ontario electricity price falls below $30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative.

Due to an unobservable input used in the pricing model of the Bruce Lease embedded derivative, the measurement of the liability is classified within Level 3.

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at December 31, 2014:

(millions of dollars except where noted)	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(302)	Option model	Risk Premium [1]	0% - 30%

[1] Represents the range of premiums used in the valuation analysis that OPG has determined market participants would use when pricing the derivative.

The term related to the derivative embedded in the Bruce Lease is based on the remaining service lives, for accounting purposes, for certain units of the Bruce generating stations. As at December 31, 2014, the estimated service life, for accounting purposes, of these Bruce units is to 2019. OPG's exposure to changes in the fair value of the Bruce Lease embedded derivative is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices and is subject to the Bruce Lease Net Revenues Variance Account. As such, the income statement impact of changes in the derivative liability is offset by the income statement impact of the Bruce Lease Net Revenues Variance Account.

Decommissioning Fund and Used Fuel Fund

Nuclear Funds investments classified as Level 3 consist of real estate and infrastructure investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, reference to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discounts or premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at December 31, 2014:

(millions of dollars except where noted)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure	496	262	n/a	n/a
Real Estate	507	256	n/a	n/a
Pooled Funds				
Short-term Investments	18	n/a	Daily	1 - 5 Days
Fixed Income	585	n/a	Daily	1 - 5 Days
Equity	690	n/a	Daily	1 - 5 Days
Total	2,296	518		

The fair value of the above investments is classified as either Level 2 or Level 3.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments such as energy, transportation and utilities.

The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund.

The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

This class includes investment in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation.

The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in these investments.

The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios.

The fair value of the investments in this class has been estimated using the net asset value per share of the investments.

There are no significant restrictions on the ability to sell investments in this class.

14. COMMON SHARES

As at December 31, 2014 and 2013, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder.

15. COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power L.P. (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power L.P.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power L.P. did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

Certain First Nations have commenced actions against OPG for interference with their respective reserve and traditional land rights. As well, OPG has been brought into certain actions by the First Nations against other parties as a third party defendant.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in the consolidated financial statements to meet certain other environmental obligations. As at December 31, 2014, OPG's environmental liabilities were $15 million (2013 – $15 million).

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at December 31, 2014, the total amount of guarantees OPG provided to these entities was $78 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at December 31, 2014, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

OPG's contractual obligations and other significant commercial commitments as at December 31, 2014, are as follows:

(millions of dollars)	2015	2016	2017	2018	2019	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	193	172	134	134	51	129	813
Contributions under the Ontario Nuclear Funds Agreement [1]	141	150	183	193	288	2,398	3,353
Pension contributions to the OPG registered pension plan [2]	364	370	-	-	-	-	734
Long-term debt repayment	503	273	1,103	398	368	3,085	5,730
Interest on long-term debt	261	249	230	174	155	1,986	3,055
Unconditional purchase obligations	97	8	-	-	-	-	105
Operating lease obligations	18	15	15	13	12	65	138
Commitments related to Darlington Refurbishment [3]	150	-	-	-	-	-	150
Operating licence	22	23	23	18	19	-	105
Accounts payable	295	-	-	-	-	-	295
Other	125	19	14	5	60	9	232
	2,169	1,279	1,702	935	953	7,672	14,710
Significant commercial commitments:							
Lower Mattagami River project	95	-	-	-	-	-	95
Total	2,264	1,279	1,702	935	953	7,672	14,805

[1] Contributions under the Ontario Nuclear Funds Agreement (ONFA) are based on the 2012 ONFA Reference Plan contribution schedule approved in 2012.

[2] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2014. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2017. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2017 for the OPG registered pension plan are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time.

[3] Estimated currently committed costs to close the project, including demobilization of project staff and cancellation of existing contracts and material orders.

Lower Mattagami

The Lower Mattagami River project increased the capacity of the four generating stations on the Lower Mattagami River by 438 MW. As of December 31, 2014, all six new units were placed in service. The capital project expenditures for the year ended December 31, 2014 were $387 million and the life-to-date expenditures were $2.4 billion. The project budget of $2.6 billion includes the design-build contract, as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs. The remaining contractual commitments for the project relate to project completion activities.

Darlington Refurbishment

As of December 31, 2014, OPG has issued contracts valued at over $2 billion related to the refurbishment of the Darlington nuclear station. Some of these contracts relate to work to be completed in the current planning phase, scheduled to end in 2015, while others are for work that will be performed in the execution phase of the project. These contracts contain suspension and termination provisions. The most significant contracts include the Retube and Feeder Replacement (RFR) contract, and the Turbine Generator contract. Significant contracts awarded to date are as follows:

- In February 2014, OPG awarded the Turbine Generator contract for engineering integration and field installation, valued at approximately $200 million.
- In March 2013, OPG awarded the Turbine Generator contract for equipment supply and technical services, valued at approximately $350 million.
- In March 2012, OPG awarded a RFR contract, with an estimated value of over $600 million.

Capital project expenditures for 2014 were $598 million and the life to date capital expenditures as at December 31, 2014 were $1,492 million. A budget and schedule for the refurbishment of the four units are expected to be completed in 2015.

Lease Commitments

The Company is party to various leases for real estate and equipment under operating lease arrangements. Real estate and transport equipment lease rent expense for the year ended December 31, 2014 was $11 million (2013 – $13 million).

The Company leases Bruce A and B nuclear generating stations to Bruce Power L.P. until 2018, with Bruce Power L.P. having an option to renew for up to 25 years thereafter.

As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the difference between OPG's revenues, including lease revenues, and costs, including depreciation expense, associated with its ownership of the Bruce A and B nuclear generating stations is included in the determination of OPG's nuclear regulated prices established by the OEB. These revenues and costs are determined on the basis of the manner in which they are recognized in OPG's consolidated financial statements. As the assets on lease to Bruce Power L.P. are not prescribed facilities under *Ontario Regulation 53/05*, the net book value of the assets is not included in the regulated rate base.

During 2014, OPG recorded lease revenue related to the Bruce generating stations of $258 million (2013 – $178 million), which included supplemental rent from Bruce Power L.P. of $207 million (2013 – $125 million). The amount of supplemental rent shown in 2013 was net of a contractually required rebate of $78 million. The net book value of property, plant and equipment on lease to Bruce Power L.P. as at December 31, 2014 was $1,795 million (2013 – $1,858 million).

Other Commitments

The Company maintains labour agreements with the Power Workers' Union (PWU) and the Society of Energy Professionals (The Society). As at December 31, 2014, OPG had approximately 9,700 regular employees and about 89 percent of its regular labour force was covered by the collective bargaining agreements. The current collective agreement between OPG and the PWU has a three-year term, which expires on March 31, 2015. The Company's current collective agreement with The Society was established through an arbitration award issued on April 8, 2013. This agreement has a three-year term, which expires on December 31, 2015. The Society filed a Judicial Review Application in the second quarter of 2013 to the Superior Court of Ontario in the matter of the arbitration award. The case was heard at Divisional Court on October 30, 2014 and a ruling was issued November 27, 2014 dismissing the Society's application. On December 11, 2014, the Society filed a motion for leave to appeal the Divisional Court ruling. The motion has been heard and a decision is expected in the next few months.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

16. BUSINESS SEGMENTS

Effective January 1, 2014, OPG revised the composition of its reportable business segments to reflect changes in its generation portfolio and internal reporting. These changes primarily reflect 48 of OPG's hydroelectric generating facilities which were prescribed for rate regulation beginning in 2014, and ending the use of coal at the Nanticoke and Lambton generating stations in 2013. OPG's reportable business segments, effective January 1, 2014, are as follows:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and Other Non-Generation.

OPG's Regulated – Nuclear Generation and Regulated – Nuclear Waste Management segments are unchanged.

Regulated – Nuclear Generation Segment

OPG's Regulated – Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering and Darlington Nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce Nuclear generating stations. This revenue includes lease revenue and revenue from heavy water sales and services such as detritiation. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support. Revenues under the agreements with Bruce Power and from isotope sales and ancillary services are included by the OEB in the determining of the regulated prices for OPG's nuclear facilities, which has the effect of reducing OPG's nuclear regulated prices.

Regulated – Nuclear Waste Management Segment

OPG's Regulated – Nuclear Waste Management segment engages in the management of nuclear used fuel and L&ILW, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power L.P.), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to used nuclear fuel bundles and L&ILW which increase the Nuclear Liabilities. OPG charges these variable costs to current operations in the Regulated – Nuclear Generation segment to reflect the cost of producing energy and earning revenue under the Bruce Power lease arrangement and related agreements. Since variable costs increase the Nuclear Liabilities in the Regulated – Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated – Nuclear Generation and the Regulated – Nuclear Waste Management segments. The impact of the inter-segment charge is eliminated on OPG's consolidated statements of income and balance sheets.

The Regulated – Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included by the OEB in determining regulated prices for production from OPG's regulated nuclear facilities.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's hydroelectric generating stations. The business segment includes the results of the Sir Adam Beck 1, 2 and Pump generating station (GS), DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. This segment also includes the results of the 48 newly regulated hydroelectric stations. The OEB's order, issued in December 2014, established regulated prices for these assets effective November 1, 2014. The comparative information for these 48 hydroelectric stations, previously reported under the Unregulated – Hydroelectric segment in OPG's 2013 annual MD&A and consolidated financial statements, has been reclassified to conform to this new presentation.

Contracted Generation Portfolio Segment

The Contracted Generation Portfolio business segment operates in Ontario, generating and selling electricity from the Company's generating stations that are not prescribed for rate regulation. The segment primarily includes generating facilities that are under an ESA with the IESO or other long-term contracts.

Activities of generating stations that are not currently subject to a contract or rate regulation, but are available to generate electricity for sale, if required, are also included in the Contracted Generation Portfolio segment. Since the Lambton GS and Nanticoke GS were generating electricity up to the end of 2013, the activities related to these stations for the comparative period are reported in the Contracted Generation Portfolio segment. These stations ended coal-fired operations as a result of a Shareholder declaration issued in March 2013 mandating that OPG end the use of coal at these stations by the end of 2013. Therefore, effective January 1, 2014, the activities related to the Lambton GS and Nanticoke GS are reported under the Services, Trading, and Other Non-Generation business segment. The comparative information for the unregulated generating stations, previously reported under the Unregulated – Hydroelectric and Unregulated – Thermal segments in OPG's 2013 annual MD&A and consolidated financial statements, has been reclassified to conform to this new presentation.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in the PEC and Brighton Beach stations. OPG's share of the in-service generating capacity and generation volume from its interests in the PEC and Brighton Beach stations are also included in this segment.

Services, Trading, and Other Non-Generation Segment

The Services, Trading, and Other Non-Generation segment is a non-generation segment that is not subject to rate regulation. It includes the revenue and expenses related to OPG's trading and other non-hedging activities. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, sales of financial risk management products, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the United States market. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in the revenue of this segment. In addition, this segment includes revenue from real estate rentals and other unregulated service revenues. The above activities were previously reported in the Other category.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangible assets held within the Services, Trading and Other Non-Generation segment. The total service fee is recorded as a reduction to the segment's OM&A expenses.

The service fee included in OM&A expenses by segment in 2014 and 2013 was as follows:

(millions of dollars)	**2014**	**2013** *(adjusted)*
Regulated – Nuclear Generation	**23**	23
Regulated – Hydroelectric	**6**	4
Contracted Generation Portfolio	**3**	6
Services, Trading, and Other Non-Generation	**(32)**	(33)

Information for the comparative period has been adjusted to reflect the changes to OPG's reportable business segments and is labeled "adjusted".

Segment Income (Loss) for the Year Ended December 31, 2014 *(millions of dollars)*		**Regulated**		**Unregulated**			
	Nuclear Generation	**Nuclear Waste Management**	**Hydroelectric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	**3,015**	**121**	**1,417**	**329**	**197**	**(116)**	**4,963**
Fuel expense	**258**	**-**	**343**	**37**	**3**	**-**	**641**
Gross margin	**2,757**	**121**	**1,074**	**292**	**194**	**(116)**	**4,322**
Operations, maintenance and administration	**1,983**	**129**	**325**	**175**	**119**	**(116)**	**2,615**
Depreciation and amortization	**529**	**-**	**167**	**38**	**20**	**-**	**754**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**782**	**-**	**8**	**7**	**-**	**797**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(714)**	**-**	**-**	**-**	**-**	**(714)**
Regulatory disallowance related to the Niagara Tunnel project	**-**	**-**	**77**	**-**	**-**	**-**	**77**
Income from investments subject to significant influence	**-**	**-**	**-**	**(41)**	**-**	**-**	**(41)**
Property taxes	**28**	**-**	**1**	**(1)**	**4**	**-**	**32**
Restructuring	**-**	**-**	**-**	**8**	**10**	**-**	**18**
Other loss (income)	**-**	**-**	**2**	**(6)**	**1**	**-**	**(3)**
Income (loss) before interest, income taxes, and extraordinary item	**217**	**(76)**	**502**	**111**	**33**	**-**	**787**

Segment (Loss) Income for the Year Ended December 31, 2013 *(millions of dollars) (adjusted)*	**Regulated**			**Unregulated**			
	Nuclear Generation	**Nuclear Waste Management**	**Hydroelectric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Elimination**	**Total**
Revenue	2,889	113	1,236	657	77	(109)	4,863
Fuel expense	237	-	344	127	-	-	708
Gross margin	2,652	113	892	530	77	(109)	4,155
Operations, maintenance and administration	2,022	121	298	408	7	(109)	2,747
Depreciation and amortization	626	-	186	132	19	-	963
Accretion on fixed asset removal and nuclear waste management liabilities	-	742	-	14	-	-	756
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(628)	-	-	-	-	(628)
Income from investments subject to significant influence	-	-	-	(35)	-	-	(35)
Property taxes	29	-	(1)	14	11	-	53
Restructuring	-	-	-	50	-	-	50
Other loss (income)	(1)	-	4	(4)	(2)	-	(3)
(Loss) income before interest, income taxes, and extraordinary items	(24)	(122)	405	(49)	42	-	252

Selected Consolidated Balance Sheet Information as at December 31, 2014				**Unregulated**		
(millions of dollars)	**Nuclear Generation**	**Regulated Nuclear Waste Manage-ment**	**Hydro-electric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Total**
Segment property, plant and equipment in-service, net	**4,679**	-	**7,483**	**3,267**	**338**	**15,767**
Segment construction in progress	**1,655**	-	**86**	**35**	**50**	**1,826**
Segment property, plant and equipment, net	**6,334**	-	**7,569**	**3,302**	**388**	**17,593**
Segment intangible assets in-service, net	**11**	-	**1**	**4**	**14**	**30**
Segment development in progress	**2**	-	**1**	-	**43**	**46**
Segment intangible assets, net	**13**	-	**2**	**4**	**57**	**76**
Segment fuel inventory	**298**	-	-	**36**	-	**334**
Segment materials and supplies inventory, net:						
Current	**93**	-	-	**1**	-	**94**
Long-term	**332**	-	**1**	**5**	-	**338**
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	**14,379**	-	-	-	**14,379**
Fixed asset removal and nuclear waste management liabilities	-	**(16,663)**	-	**(333)**	**(32)**	**(17,028)**

Selected Consolidated Balance Sheet Information as at December 31, 2013 *(millions of dollars) (adjusted)*	**Regulated**			**Unregulated**		
	Nuclear Generation	**Nuclear Waste Management**	**Hydroelectric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Total**
Segment property, plant and equipment in-service, net	4,864	-	7,624	921	189	13,598
Segment construction in progress	866	-	81	2,150	43	3,140
Segment property, plant and equipment, net	5,730	-	7,705	3,071	232	16,738
Segment intangible assets in-service, net	15	-	1	4	17	37
Segment development in progress	2	-	-	-	20	22
Segment intangible assets, net	17	-	1	4	37	59
Segment fuel inventory	334	-	-	56	-	390
Segment materials and supplies inventory, net:						
Current	94	-	-	1	-	95
Long-term	322	-	1	7	-	330
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	13,496	-	-	-	13,496
Fixed asset removal and nuclear waste management liabilities	-	(15,903)	-	(322)	(32)	(16,257)

Selected Consolidated Cash Flow Information *(millions of dollars)*	**Regulated**			**Unregulated**		
	Nuclear Generation	**Nuclear Waste Management**	**Hydroelectric**	**Contracted Generation Portfolio**	**Services, Trading, and Other Non-Generation**	**Total**
Year ended December 31, 2014						
Investment in property, plant and equipment, and intangible assets	**991**	**-**	**84**	**423**	**47**	**1,545**
Year ended December 31, 2013 *(adjusted)*						
Investment in property, plant and equipment, and intangible assets	633	-	172	724	39	1,568

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	2014	2013
Receivables from related parties	**(80)**	40
Other accounts receivable and prepaid expenses	**15**	(21)
Fuel inventory	**56**	115
Income taxes payable/recoverable	**75**	12
Materials and supplies	**1**	(5)
Accounts payable and accrued charges	**145**	98
	212	239

18. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and successor entities of Ontario Hydro, including Hydro One Inc. (Hydro One), the IESO, and the OEFC, and jointly controlled entities. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions for the years ended December 31 are summarized below:

	2014		2013	
(millions of dollars)	Revenue	Expenses	Revenue	Expenses
Hydro One				
Electricity sales	**23**	**-**	15	-
Services	**1**	**13**	-	14
Province of Ontario				
Decommissioning Fund excess funding	**-**	**476**	-	560
Used Fuel Fund rate of return guarantee	**-**	**439**	-	755
Gross revenue charges	**-**	**123**	-	124
ONFA guarantee fee	**-**	**8**	-	8
Pension benefits guarantee fee	**-**	**2**	-	1
OEFC				
Gross revenue charges	**-**	**209**	-	208
Interest expense on long-term notes	**-**	**187**	-	187
Income taxes, net of investment tax credits	**-**	**136**	-	28
Contingency support agreement	**83**	**-**	360	-
Capital tax	**-**	**-**	-	1
IESO				
Electricity related revenue	**4,305**	**75**	4,015	62
	4,412	**1,668**	4,390	1,948

The receivable and payable balances, as at December 31, between OPG and its related parties are summarized below:

(millions of dollars)	2014	2013
Receivables from related parties		
Hydro One	**1**	2
IESO	**468**	331
OEFC	**10**	67
PEC	**3**	2
Accounts payable and accrued charges		
Hydro One	**8**	3
OEFC	**63**	65
Province of Ontario	**3**	2

19. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method as described in Note 3. Details of the balance included in the consolidated balance sheets as at December 31 are as follows:

(millions of dollars)	2014	2013
PEC		
Current assets	**15**	19
Long-term assets	**287**	303
Current liabilities	**(5)**	(15)
Long-term liabilities	**(4)**	(4)
Brighton Beach		
Current assets	**6**	5
Long-term assets	**186**	196
Current liabilities	**(13)**	(11)
Long-term liabilities	**(6)**	(5)
Long-term debt	**(118)**	(129)
Investments subject to significant influence	**348**	359

20. RESEARCH AND DEVELOPMENT

For the year ended December 31, 2014, research and development expenses of $84 million (2013 – $104 million) were charged to operations.

21. RESTRUCTURING

In response to the Ministry of Energy's Long-Term Energy Plan, Supply Mix Directive and various other directives, OPG has been undertaking restructuring activities since 2011 pertaining to the closure of its coal-fired generating units at the Lambton GS, Nanticoke GS, Atikokan GS and Thunder Bay GS. These activities have an impact on staff requirements and require OPG to record the corresponding restructuring costs.

In December 2013, the Minister of Energy issued a Directive to the former OPA to negotiate and enter into a contract for electricity from one unit at the Thunder Bay GS using advanced biomass fuel. The resulting impact on staff requirements has been finalized during 2014. The total severance costs related to the Thunder Bay GS are estimated to be $8 million and were recorded during the second and third quarters of 2014. Additional severance costs of $4 million related to the Lambton and Nanticoke generating stations were also recorded during 2014. Relocation costs of $6 million were recorded as incurred during 2014.

OPG conducted discussions with key stakeholders, including The Society and the PWU, in accordance with their respective collective bargaining agreements, at all plants impacted to date by the regulation requiring the cessation of coal-fired electricity generation. Given collective agreement provisions allowing deferral of severance payout to future periods, the restructuring liability is expected to be fully drawn down by 2017.

The change in the restructuring liability during 2014 and 2013 is as follows:

(millions of dollars)	
Liability, beginning of year	3
Restructuring charges during the year	50
Payments during the year	(13)
Liability, December 31, 2013	40
Restructuring charges during the year	**18**
Payments during the year	**(41)**
Liability, end of year	**17**

22. NON-CONTROLLING INTEREST

Lower Mattagami Limited Partnership (LMLP) is an Ontario limited partnership between OPG, Amisk-oo-Skow Finance Corporation (AFC), a corporation wholly owned by the Moose Cree First Nation, and LM Extension Inc., a wholly owned subsidiary of OPG. The principal business of LMLP is the development, construction, ownership, operation and maintenance of hydroelectric generating facilities located on the Lower Mattagami River. As incremental units are placed in-service, the AFC may acquire up to a 25 percent interest in the assets through its investment in LMLP.

During 2014, all six new units constructed as part of the Lower Mattagami River project were declared in-service. Subsequent to the units' in-service dates, the AFC made contributions of $141 million to acquire their equity interest in LMLP, through the settlement of existing liabilities, including long-term debt. As of December 31, 2014, the AFC had a 25 percent interest in LMLP. OPG consolidates the results of LMLP in its consolidated financial statements and the non-controlling interest represents the AFC's equity interest in LMLP.

TRUSTS AND MISCELLANEOUS STATEMENTS

Deposit Insurance Corporation of Ontario

Management's Responsibility for Financial Statements

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the annual financial statements and all other information included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by KPMG LLP, whose report follows.

Andrew (Andy) Poprawa, CPA, CA, C.Dir
President & CEO

Richard Dale

Richard Dale
Vice President, Corporate Affairs

Toronto, Canada

March 27, 2015

Independent Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario:

We have audited the accompanying financial statements of the Deposit Insurance Corporation of Ontario, which comprise the statement of financial position as at December 31, 2014, the statements of operations and changes in the deposit insurance reserve fund, comprehensive income, equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Deposit Insurance Corporation of Ontario as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

March 27, 2015
Toronto, Canada

Deposit Insurance Corporation of Ontario

Statement of Financial Position

(in thousands of dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,609	$ 2,298
Investments	2	145,768	126,958
Premiums receivable		1,227	1,777
Prepaid expenses and other receivables		710	603
Total current assets		150,828	131,364
Non-current assets			
Investments	2	29,768	24,081
Deposit insurance advances recoverable	5	16,888	20,884
Property, plant and equipment	7	809	617
Intangible assets	8	637	552
Total non-current assets		47,483	46,224
Total assets		$198,311	$177,591
LIABILITIES			
Current liabilities			
Payables and accruals		$ 842	$ 702
Deferred premium income	4	2,288	2,677
Total current liabilities		3,130	3,379
Non-current liabilities			
Payables and accruals		371	593
Employee benefits	3	5,990	5,525
Accrual for deposit insurance claims	5	3,940	3,451
Total non-current liabilities		10,301	9,649
Total Liabilities		$ 13,431	$ 13,028
EQUITY			
Accumulated other comprehensive loss		$ (233)	$ (121)
Deposit Insurance Reserve Fund		185,113	164,684
Total Equity		$184,880	$164,563
Total Liabilities and Equity		$198,311	$177,591

See accompanying notes to financial statements

On behalf of the Board

Director

Director

Deposit Insurance Corporation of Ontario

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

(in thousands of dollars)	Notes	Year ended December 31, 2014	2013
INCOME			
Premium income	*4*	**$ 26,541**	$ 25,626
Other income		**2,245**	1,661
		28,786	27,287
EXPENSES			
Salaries and benefits		**6,912**	6,362
Operating expenses		**2,076**	2,287
Recovery of operating expenses		**(773)**	(469)
		8,215	8,180
Excess of income over operating expenses		**20,571**	19,107
Net provision for insurance losses	*6*	**142**	1,954
Excess of income over total expenses		**20,429**	17,153
Deposit Insurance Reserve Fund, beginning of year		**164,684**	147,531
Deposit Insurance Reserve Fund, end of year		**$185,113**	$164,684

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Comprehensive Income

(in thousands of dollars)

	Year ended December 31, 2014	2013
Excess of income over total expenses	**$20,429**	$17,153
Other comprehensive income:		
Unrealized gains on available-for-sale investments arising during the year	**16**	62
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**(144)**	(93)
Actuarial gains on post-employment, non-pension benefits arising during the year	**20**	286
Total other comprehensive income (loss)	**(108)**	255
Comprehensive income	**$20,321**	$17,408

Statement of Accumulated Other Comprehensive Income

(in thousands of dollars)

	Year ended December 31, 2014	2013
Accumulated other comprehensive income (loss), beginning of year	**$ (121)**	$ (376)
Sale of available-for-sale investments from opening balance of accumulated other comprehensive income	**(149)**	(200)
Unrealized gains on available-for-sale investments arising during the year	**165**	216
Unrealized gains (losses) on available-for-sale investments acquired from liquidated credit unions arising during the year	**(144)**	(47)
Actuarial gains on post-employment, non-pension benefits arising during the year	**20**	286
Net change during the year	**(108)**	255
Accumulated other comprehensive loss, end of year	**$ (229)**	$ (121)

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Changes in Equity

(in thousands of dollars)	Actuarial loss on post-employment, non-pension benefits *	Unrealized gains (losses) on available-for-sale investments *	Deposit Insurance Reserve Fund	Total equity
Balance at January 1, 2013	$(750)	$374	$147,531	$147,155
Total comprehensive income for the year:				
Excess of income over total expenses			17,153	17,153
Other comprehensive income:				
Net change in fair value of available-for-sale investments		62		62
Net change in fair value of available-for-sale investments acquired from liquidated credit unions		(93)		(93)
Net change in fair value of post-employment, non-pension benefits	286			286
Total comprehensive income (loss) for the year	286	(31)	17,153	17,408
Balance at December 31, 2013	**$(464)**	**$343**	**$164,684**	**$164,563**
Balance at January 1, 2014	$(464)	$343	$164,684	$164,563
Total comprehensive income for the year:				
Excess of income over total expenses			20,429	20,429
Other comprehensive income:				
Net change in fair value of available-for-sale investments		16		16
Net change in fair value of available-for-sale investments acquired from liquidated credit unions		(144)		(144)
Net change in fair value of post-employment, non-pension benefits	20			20
Total comprehensive income (loss) for the year	20	(128)	20,429	20,321
Balance at December 31, 2014	**$(444)**	**$215**	**$185,113**	**$184,884**

* Accumulated other comprehensive income

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Cash Flows

(in thousands of dollars)

	Notes	Year ended December 31, 2014	2013
Cash flows from operating activities:			
Excess of income over total expenses		**$20,429**	$17,153
Adjustments for:			
Provision of losses		**142**	1,954
Loss on disposal of property, plant and equipment		**-**	1
Unrealized gains (losses) on available-for-sale investments arising during the year		**(128)**	(31)
Actuarial gains (losses) on post-employment, non-pension benefits arising during the year		**20**	286
Depreciation of property, plant and equipment	*7*	**154**	146
Amortization of intangible assets	*8*	**150**	138
		20,767	19,647
Changes in:			
Premiums receivable		**550**	1,273
Prepaid expenses and other receivables		**(108)**	126
Payables and accruals		**342**	(184)
Deferred premium income		**(189)**	(959)
Employee benefits		**464**	251
		1,059	507
Net deposit insurance recoveries (advances)	*6*	**3,823**	(1,382)
		25,649	18,772
Cash flows from investing activities:			
Interest received		**1,796**	1,531
Purchase of investments held at year end		**176,534)**	150,979)
Proceeds on sale of investments		**149,183**	130,931
Purchase of property, plant and equipment	*7*	**(142)**	(119)
Purchase of intangible assets	*8*	**(14)**	(134)
		(25,711)	(18,770)
Net increase (decrease) in cash and cash equivalents		**(62)**	2
Cash and cash equivalents, beginning of year		**2,286**	2,284
Cash and cash equivalents, end of year		**$ 2,224**	$ 2,286

Cash and cash equivalents comprise cash and short-term investments.

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Notes to Financial Statements

Year ended December 31, 2014

1. REPORTING ENTITY

The Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994 ("the Act").

The statutory objects of the Corporation under the Act are to:

- provide insurance against the loss of part or all of deposits with credit unions;
- promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- pursue the objects set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- perform the duties provided under this Act or the regulations or do anything the Corporation is required or authorized to do under this Act or the regulations; and
- carry out such other objects as the Minister may specify in writing or as may be prescribed.

The Act empowers the Corporation to assess its credit unions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

The Minister of Finance approved a $400 million revolving credit facility agreement with the Ontario Financing Authority (OFA) for the purpose of ensuring the Corporation's capacity to address systemic difficulties in the credit union system that may require resources above those in the Deposit Insurance Reserve Fund. The agreement is effective January 1, 2014 and expires on December 31, 2018. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province's cost of funds for borrowings with a three month term, determined by the OFA at the time of the borrowing, plus an additional 0.575 percent per annum.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and were approved by the Board of Directors on March 27, 2015.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgements are disclosed in provisions for losses (note 6) and measurement of accrued benefit obligations relating to future non-pension post-employment benefits (note 9).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements unless otherwise indicated.

(a) Premium income:

Premiums are based on a Differential Premium Risk Classification System, as defined by regulation applied to insured deposits held by credit unions. Premium income is calculated based on the Annual Institution Return submitted by the credit union which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to credit unions in liquidation and an accrual for losses for which advances have not been made at the date of the statement of financial position.

Funds advanced in respect of deposit insurance and loans to credit unions are initially recorded at cost. Deposit insurance advances recoverable are presented on the statement of financial position, net of allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in credit unions. The provision is established by assessing the aggregate risk in credit unions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. Management applied the methodology which evaluates all credit unions with the highest risk score under our current prospective risk rating system.

The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund "DIRF" model) and actual probabilities of failure when possible. The model also categorizes the credit unions based on asset size and discounts the estimated loss to the next 12 month period. Model results are then considered along with the level of the existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for loss should be.

Changes in the provision for insurance losses that result from quarterly reviews are recognized as an adjustment to the provision for insurance losses in the period in which the estimated changes occur.

(c) Employee benefits:

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined benefit plans

The Corporation provides future non-pension post-retirement benefits which relate to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the projected unit credit method. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation are recognized in full in the Statement of Other Comprehensive Income ("OCI"), and all projected defined benefit costs are expensed in the Statement of Operations. Additional disclosures are provided in Note 9(ii).

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments:

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in OCI is transferred to Statement of Operations.

(e) Property, plant and equipment:

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation of furniture and equipment is provided by the diminishing-balance method at the rate of 20% per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets:

The internally developed web-based software tool for electronic filing of financial data by the credit unions is recorded as an intangible asset. The expenditure capitalized includes the direct cost of specialized and licensed software and direct labour costs that are attributable to preparing the asset for its intended use. The subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognized in Statement of Operations on a straight-line basis over the estimated useful life of seven years from the date that the assets are available for use.

(g) Lease payments:

Payments made under operating leases are recognized in Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in Statement of Operations and Changes in the Deposit Insurance Reserve Fund except for items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Standards issued but not yet mandatorily effective:

IFRS 9 Financial Instruments:

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Corporation intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018 and does not expect the standard to have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers:

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The Corporation does not expect the standard to have a material impact on the financial statements.

4. PREMIUM INCOME

($000)	**2014**	2013
	$26,541	$25,626

Differential premiums are calculated based on the amount of each credit union's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. The higher the points, the lower the premium rate. The effective rates (per $1,000 of insured deposits) are as follows:

Class	Points	Rate
1	85	$1.00
2	70-84	$1.15
3	55-69	$1.40
4	40-54	$1.75
5	<40	$3.00

At December 31, 2014 DICO has deferred premium income of $2,288,000 (2013 - $2,477,000), which represents the balance of pro-rated premiums for the credit unions whose fiscal year straddles DICO's fiscal year end.

5. INVESTMENTS

	December 31, 2014			December 31, 2013		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills - Canada and Provincial	$ 88,584	0.93%	78	$ 65,979	0.93%	88
Bankers' acceptances / Bank deposit notes	$ 58,182	1.19%	45	$ 41,953	1.10%	49
Ontario Infrastructure and Land Corp.	-	-	-	$ 18,966	1.05%	62
Total current investments	$146,766	1.00%	65	$126,898	0.98%	71
Laddered government bonds	$ 29,438	1.42%	626	$ 23,608	1.39%	619
CUCO Co-op Class B investment shares (acquired from liquidated credit unions)	$ 330			$ 473		
Total non-current investments	$ 29,768			$ 24,081		
Total Investments	$176,534			$150,979		

The Corporation's current and non-current investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income until the investment is sold.

As of December 31, 2014, the current, highly liquid investments have a weighted-average yield of 1.00% (2013: 0.98%). The non-current investments are the laddered government bonds with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments was 1.42% (2013: 1.39%). The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the *Income Tax Act*, the *Credit Unions and Caisses Populaires Act, 1994* and Regulation 237/09.

Included in the total non-current investments are the CUCO - Co-op Class B shares purchased from 18 credit unions in liquidation, mainly for the purpose of completing their final wind down of business. As of December 31, 2014, these investments were valued at $330,000 (2013: $473,000). During the year, a total of $308,000 (2013: $45,000) of return of capital distributions were received from CUCO Cooperative Association.

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2014 and 2013, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets:

($ thousands)	**2014**	2013
Level 1	**$176,204**	$150,506
Level 2	**$ 330**	$ 473
Level 3	**-**	-
Total	**$176,534**	$150,979

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. DEPOSIT INSURANCE ADVANCES RECOVERABLE AND ACCRUAL FOR DEPOSIT INSURANCE CLAIMS

The provision for losses includes specific provisions for known or likely losses from specific credit unions not included in their financial statements and a general accrual for losses not identified with specific credit unions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the statement of financial position as "Accrual for deposit insurance claims". When funds advanced in respect to deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as "Deposit Insurance advances recoverable" on the statement of financial position.

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for losses included in "Accrual for deposit insurance claims" is $3,000,000 at December 31, 2014 (2013 - $3,200,000) and is calculated in accordance with the methodology as described in note 3(b).

	2014			2013		
($ thousands)	**Deposit Insurance Advances Recoverable**	**Accrual for deposit insurance claims**	**Net**	Deposit Insurance Advances Recoverable	Accrual for deposit insurance claims	Net
Balance at beginning of year	20,864	(3,451)	17,413	22,753	(4,768)	17,985
Net change during the year:						
Increase in specific provisions for current year losses	-	-	-	-	(50)	(50)
Reduction in General accrual for the year	-	200	200	-	300	300
Net change in specific provisions for prior years' losses booked and advanced	(342)	-	(342)	(2,204)	-	(2,204)
Total net (accrual) / recovery for insurance losses	**(342)**	**200**	**(142)**	**(2,204)**	**250**	**(1,954)**
Total cash advances for losses accrued	445	11	456	3,344	1,067	4,411
Total cash recoveries for prior years' losses	(4,279)	-	(4,279)	(3,029)	-	(3,029)
Net deposit insurance advances (recoveries)	**(3,834)**	**11**	**(3,823)**	**315**	**1,067**	**1,382**
Total net change	**(4,176)**	**211**	**(3,965)**	**(1,889)**	**1,317**	**(572)**
Balance at end of year	**16,688**	**(3,240)**	**13,448**	**20,864**	**(3,451)**	**17,413**

7. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	**Furniture and Fixture**	**Office Equipment**	**Computer and Related Equipment**	**Software**	**Leasehold Improvement**	**Total**
Cost or deemed cost						
Balance at January 1, 2013	$524	$81	$1,947	$731	$517	$3,800
Additions	8	6	67	28	10	119
Disposals	(4)	(18)	(140)	-	-	(162)
Balance at December 31, 2013	**$528**	**$69**	**$1,874**	**$759**	**$527**	**$3,757**
Balance at January 1, 2014	$528	$69	$1,874	$759	$527	$3,757
Additions	12	-	62	67	1	142
Disposals	(2)	-	(18)	-	-	(20)
Balance at December 31, 2014	**$538**	**$69**	**$1,918**	**$826**	**$528**	**$3,879**
Depreciation						
Balance at January 1, 2013	$437	$71	$1,863	714	$270	$3,355
Depreciation for the year	18	2	56	16	54	146
Disposals	(4)	(17)	(140)	-	-	(161)
Balance at December 31, 2013	**$451**	**$56**	**$1,779**	**$730**	**$324**	**$3,340**
Balance at January 1, 2014	$451	$56	$1,779	$730	$324	$3,340
Depreciation for the year	16	2	57	22	57	154
Disposals	(3)	-	(17)	-	-	(20)
Balance at December 31, 2014	**$464**	**$58**	**$1,819**	**$752**	**$381**	**$3,474**
Carrying amount						
At January 1, 2013	$ 88	$12	$ 81	$ 18	$246	$ 445
At December 31, 2013	$ 77	$13	$ 95	$ 29	$203	$ 417
At December 31, 2014	**$ 74**	**$11**	**$ 99**	**$ 74**	**$147**	**$ 404**

8. INTANGIBLE ASSETS

($ thousands)	**Development Costs**
Cost	
Balance at January 1, 2013	$ 902
Additions	134
Disposals	-
Balance at December 31, 2013	**$1,036**

Balance at January 1, 2014	$ 1,036
Additions	14
Disposals	-
Balance at December 31, 2014	**$1,050**

Amortization	
Balance at January 1, 2013	$ 236
Amortization for the year	138
Balance at December 31, 2013	**$ 374**

Balance at January 1, 2014	$ 374
Amortization for the year	150
Balance at December 31, 2014	**$ 524**

Carrying amounts	
At January 1, 2013	$ 666
At December 31, 2013	662
At December 31, 2014	**$ 527**

9. EMPLOYEE BENEFITS

(i) Pension plan

The Corporation operates a defined contribution pension plan for all eligible employees. In addition DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution amount for the CEO on his base salary. The total pension expense for the Corporation charged to Statement of Operations in 2014 was $545,000 (2013 - $517,000). Total accrued pension plan benefits as at December 31, 2014 amounted to $1,614,000 (2013 - $1,453,000).

(ii) Future non-pension post-employment benefits

The Corporation accounts for the current value of future non-pension post-employment benefits which relate to DICO's extended health, dental and life benefits plan. The most recent actuarial valuation of the defined benefit plan was carried out as at December 31, 2014, by an independent actuary, using the projected unit credit method. The accrued benefit liability as at December 31, 2014, as actuarially determined, is $3,056,000 (2013 - $2,892,000). The annual benefit cost, including current service cost and interest cost amounted to $238,000 (2013 - $232,000).

The assumptions used in the actuarial valuation of the future benefits obligations consisted of interest rate of 4.05% (2013 - 4.85%), rate of compensation increase of 3.0% (2013 - 3.5%) and immediate trend rate in health and dental costs of 5.34% (2013 - 5.72%), grading down to 4.5 % per annum by 2032. The Corporation measures its accrued benefit obligations as at December 31st.

Change in non-pension post-employment benefit obligation *($ thousands)*	**December 31, 2014**	December 31, 2013
Benefit obligation at beginning of year	**$2,892**	$2,997
Current service cost	**131**	114
Interest cost	**107**	118
Benefit payments	**(46)**	(52)
Re-measurements of effect of changes in assumptions included in OCI	**(28)**	(285)
Benefit obligation at end of year	**$3,056**	$2,892

Sensitivity analysis: *($ thousands)*	**December 31, 2014**	December 31, 2013
1. Discount rate		
a. Discount rate - 25 basis points	[illegible]	$3,011
b. Discount rate +25 basis points	[illegible]	$2,779
2. Health care cost trend rates		
a. Health care cost trend rates - 100 basis points	[illegible]	$2,461
b. Health care cost trend rates +100 basis points	[illegible]	$3,441
3. Mortality		
a. Mortality + 1 year life expectancy	[illegible]	$2,947
b. Mortality - 1 year life expectancy	[illegible]	N/A

The Corporation has also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $1,320,000 at December 31, 2014 (2013 - $1,181,000).

Summary of employees benefit liabilities (non-current):

($ thousands)	**December 31, 2014**	December 31, 2013
Employee pension benefits	**$1,616**	$1,453
Employee future non-pension post-employment benefits	**3,068**	2,892
Retention benefits for key management personnel	**1,320**	1,181
Total	**$6,004**	$5,526

10. OPERATING LEASES

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	**2014**	2013
Less than 1 year	-	-
Between 1 and 5 years	**$318**	$320
More than 5 years	-	-

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $328,000 per annum.

11. INCOME TAXES

Income tax expense reported in the Statement of Operations and Changes in the Deposit Insurance Reserve Fund is as follows:

Recognition of effective tax rate

($ thousands)	**2014**	2013
Profit before income tax	**$20,626**	$17,153
Income tax using the combined statutory rate 26.5%	**5,466**	4,546
Income not included for tax purposes	**(7,290)**	(6,300)
Current year losses for which no deferred tax asset was recognized	**1,617**	1,601
Other, net	**207**	153
Provision (recovery)	**$ -**	$ -

Deferred tax assets and liabilities

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	**2014**	2013
Deductible temporary differences	**$ 3,221**	$ 3,153
Tax benefit of loss carry-forwards	**$11,482**	$10,969
	$14,703	$14,122

The tax losses start to expire in the current year. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

12. RELATED PARTIES

Transactions with key management personnel

Directors and key management personnel compensation

During the year the Directors received an aggregate remuneration of $114,000 (2013 - $136,000). Total Directors' expense claims were $47,000 (2013 - $59,000). The remuneration for the Chair is a minimum of $2,000 per month which includes a per diem rate of $500. The per diem rate for all other Board members is $400 (2013 - $400) plus an annual retainer of $3,500.

Under the public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2014. The information is available on the Ministry of Finance web site at www.fin.gov.on.ca/en/publications/salarydisclosure.

In addition to their salaries, the Corporation provides human resources retention plans for key management personnel for the purpose of ensuring effective transition and succession planning. The terms of the plans vary with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and future non-pension post-employment benefits in which all employees of DICO are entitled to participate when they meet the qualification criteria.

Key management personnel compensation included:

($ thousands)	**2014**	2013
Short-term benefits	**$ 58**	$ 39
Post-employment benefits	**218**	120
Other long-term benefits	**188**	188
Total	**$464**	$347

13. CONTINGENCY

When acting in the capacity of administrator or liquidator of a credit union, the Corporation manages various legal actions in the normal course of business. The outstanding counterclaim against the Corporation at the end of last year was settled during the year. As of December 31, 2014, there were no legal claims pending against the Corporation.

14. RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counter party. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in credit unions. The main components of this allowance are specific provisions that relate to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance of $400 million that can be drawn down to provide liquidity to DICO as deposit insurer of credit unions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The revolving credit facility has a 5-year term effective from January 1, 2014 to December 31, 2018. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three month term, plus an additional 0.575 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 1 percent in interest rates for the investments would have increased or decreased equity by $1,764,000 (2013: $1,466,000).

(e) Capital management

One of the Corporation's mandates is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2014, the Corporation has a DIRF of $185.1 million, which represents 73 basis points of the sector's estimated insured deposits. The Corporation is committed to continue building the fund to its target of 100 basis points in 2020 in order to ensure that it continues to be adequate to enable the Corporation to protect depositors.

15. FAIR VALUE DISCLOSURE

The fair value of financial assets and liabilities which include cash and cash equivalents, premiums receivable, payables and accruals, and employee benefits, approximate their carrying amounts. The fair value of accrual for deposit insurance claims has not been determined because it is not practicable to determine fair value with sufficient reliability.

Financial Services
Commission
of Ontario

Commission des
services financiers
de l'Ontario

Ontario

June 23, 2015

Motor Vehicle Accident Claims Fund

Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management in accordance with Canadian public sector accounting standards has prepared the financial statements and where appropriate included amounts based on Management's best estimates and judgements.

Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialist in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialists.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit and Risk Committee.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The auditor's report outlines the scope of the auditor's examination and report.

Javier Aramayo
Senior Manager (A)
Motor Vehicle Accident Claims Fund

Kwan Lee
Chief Accountant
Financial Services Commission of Ontario

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Motor Vehicle Accident Claims Fund
and the Minister of Finance

I have audited the accompanying financial statements of the Motor Vehicle Accident Claims Fund, which comprise the statement of financial position as at March 31, 2015, the statements of operations and MVACF deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Motor Vehicle Accident Claims Fund as at March 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

The financial statements of the Motor Vehicle Accident Claims Fund for the year ended March 31, 2014 were audited by another auditor who expressed an unqualified opinion on those statements on June 25, 2014.

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Toronto, Ontario
June 23, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

	2015	2014 Note 3
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 53,707,214	$ 44,996,360
Accounts receivable - driver's licence fees (note 3a)	581,359	924,994
Accounts receivable - debtors (note 3c)	44,723,740	51,556,928
Less: allowance for doubtful accounts	32,644,086	38,500,274
	12,079,654	13,056,654
Long-term		
Capital assets (note 4)	553,975	553,975
Less: accumulated amortization	552,483	550,737
	1,492	3,238
Unpaid claims recoverable (note 5)	664,200	369,476
Total assets	$ 67,033,919	$ 59,350,722
LIABILITIES AND MVACF DEFICIT		
Accounts payable and accrued expenses	$ 501,596	$ 1,566,600
Employee future benefits obligation (note 3h)	477,428	471,859
Deferred revenue	73,398,454	70,897,241
Unpaid claims and adjustment expenses (note 5)	153,534,380	142,136,047
Total liabilities	227,911,858	215,071,747
MVACF deficit (note 3)	(160,877,939)	(155.721025)
Total liabilities and MVACF deficit	$ 67,033,919	$ 59350722

See accompanying notes.

APPROVED:

Brian Mills
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)
STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

		2015		2014
REVENUE				
Fees on issue or renewal of driver's licences	$	29,168,194	$	28,636,260
Prior year recoveries		1,171,141		1,412,802
Other revenue		15,938		14
Total revenue		30,355,273		30,049,076
EXPENSES				
Change in net unpaid claims and adjustment expenses		11,103,609		(271,869)
Accident benefit claims payments		13,112,330		17,049,530
Administrative expenses				
Salaries and wages		1,655,614		1,733,508
Employees' benefits		290,775		128,918
Transportation and communication		16,349		51,388
Claims (solicitors' fees, etc.)		2,275,094		1,736,864
Accident benefit claims expense		2,272,840		1,708,443
Other services		1,021,701		1,238,229
Bad debts expense		3,745,047		5,017,499
Supplies and equipment		17,082		11,558
Amortization expense		1,746		9,038
Total expenses		35,512,187		28,413,106
Excess (deficit) of revenue over expenses		(5,156,914)		1,635,970
MVACF deficit, beginning of year (note 3)		(155,721,025)		(157,356,995)
MVACF deficit, end of year	$	**(160,877,939)**	$	(155,721,025)

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31

	2015	2014
OPERATING ACTIVITIES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 32,013,042	$ 29,143,659
Repayment by debtors	1,173,031	1,179,782
Prior year recoveries	1,171,141	1,412,802
Other revenue	15,938	14
	34,373,152	31,736,257
Cash outflows		
Statutory payments	(18,160,323)	(21,170,616)
Payments to employees	(1,934,390)	(1,994,587)
Administrative expenses	(5,567,585)	(5,117,713)
	(25,662,298)	(28,282,916)
Net cash inflow from operating activities	8,710,854	3,453,341
Funds on deposit with the Ministry of Finance, beginning of year	44,996,360	41,543,019
Funds on deposit with the Ministry of Finance, end of year	$ 53,707,214	$ 44,996,360

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act*, and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements. MVACF provides compensation for these types of coverage in claims resulting from automobile accidents involving uninsured or unidentified drivers, when there is no available policy of insurance.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements in accordance with Canadian Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB) are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

b) Accounts Receivable – Driver's Licence Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Plenary a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800*. Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at-fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Recoverable amounts of $4.4 million (2014 - $5.3 million) are netted against the unpaid claims and adjustment expense in the Statement of Operations and MVACF Deficit.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF, the activity on the account since the date of the judgment, and the financial status of the defendant/debtor.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. These criteria are used to select a block of accounts that is reviewed annually by the enforcement and collections staff. The Ministry of Finance, Internal Audit Section audits the identified accounts for potential write-off and provides a certificate of assurance verifying that the established criteria for the write-off have been met. The write-off transaction is authorized by an Order-In-Council (OIC) under the authority set out in the *Financial Administration Act*.

For March 31, 2015, a write-off of $6.4 million was submitted to the Ministry of Finance but has not yet been approved. A write-off of $10.0 million for March 31, 2014 was approved during the year, through an OIC. This write-off is recorded in the current year's financial statements and represents a reduction of the account receivable debtors and allowance for doubtful accounts. There is no impact in the current year statement of operations.

Accounts receivables-debtors and the allowance for doubtful accounts are adjusted on receipt of the OIC approving the write off.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Accounting Adjustment

The Net Funds Balance for 2013-14 has been restated to correct for an understatement of expenses and overstatement of funds on deposit with the Ministry of Finance originating in fiscal 2005-2012. MVACF has corrected the errors by increasing the opening deficit by $320,288 and decreasing funds on deposit with the Ministry of Finance by $320,288.

e) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

Prior year recoveries are recorded in the period they are determined. In the current year $1.2 million (2014 - $1.4 million) recoveries were recorded but related to prior year claims.

f) Unpaid Claims and Adjustment Expenses

Unpaid claims and adjustment expenses represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement proceedings. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements. Note 6 contains additional analysis related to structured settlements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Unpaid Claims and Adjustment Expenses (continued)

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimant. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2015 (2014 – nil) as all insurers are rated A+ or above. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in Note 6 – Contingent Gains.

g) Use of Estimates

The preparation of financial statements in accordance with Canadian PSA-GNFPO requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable, contingent liabilities and employee future benefits.

h) Employee Future Benefits Obligation

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees or required by the Management Board of Cabinet's Compensation Directive. The future liability for benefits earned by MVACF's employees is recognized in the Province of Ontario's (the Province) consolidated financial statements.

While the Province continues to accrue for these costs each year and fund them annually when due, MVACF also recognizes the liabilities pertaining to a basic severance entitlement and compensated absences components of its employee future benefits costs in these financial statements. When these costs are funded by the Province when due, MVACF derecognizes these liabilities in the year.

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

6. CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)		2015	
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 28,661	$ 1,492
Office equipment	7,406	7,406	-
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 552,483	$ 1,492

(in dollars)		2014	
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 30,153	$ 27,169	$ 2,984
Office equipment	7,406	7,152	254
Furniture and fixtures	16,416	16,416	-
Leasehold improvements	500,000	500,000	-
	$ 553,975	$ 550,737	$ 3,238

8. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses and unpaid claims recoverable consist of the following:

	2015		2014	
(in thousands of dollars)	Gross	Recoverable	Gross	Recoverable
ACCIDENT BENEFITS				
Statutory accident benefits	$108,735	-	$ 95,899	-
THIRD-PARTY LIABILITY (TPL)				
Property damage	800	9	878	5
Bodily injury	43,999	655	45,359	364
Total TPL	44,799	664	46,237	369
Totals	$153,534	664	$142,136	369

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)	2015	2014
Balance, beginning of year	$ 165,136	$ 167,276
Increase (decrease) in provision for losses that occurred in prior years	8,789	(2,005)
Amounts paid during the year on claims of prior years		
Statutory payments	(15,728)	(20,715)
Claims expenses	(6,376)	(6,228)
Amounts paid during the year on claims of the current year		
Statutory payments	(902)	(296)
Claims expenses	(248)	(77)
Provision for losses on claims that occurred in the current year	30,540	28,157
Balance, end of year	$ 181,236	$ 165,136

6. CONTINGENT GAINS AND LIABILITIES

a) Contingent Gains

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2015 for information purposes.

As at March 31, 2015, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately $91.2 million (2014 - $90.1 million) with applicable reversionary interest of approximately $55.8 million (2014 - $57.5 million).

b) Contingent Liabilities

In accordance with PSA-GNFPO, MVACF makes a provision for a liability when it's both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable and it is possible that MVACF's financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution to court decisions.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2017

7. ROLE OF THE ACTUARY AND AUDITOR

FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include the provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice in Canada. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary, in his verification of the underlying data used in the valuation may use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The Auditor General of Ontario is appointed as the external auditor of the MVACF with the responsibility to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out her audit, the Auditor General also considers the work of the actuary and his report on the provision for unpaid claims and adjustment expenses. The auditor's report outlines the scope of the audit and her opinion.

Ontario Pension Board

Actuaries' opinion to the directors of the Ontario Pension Board

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OPB
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Management's responsibility for financial reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors (the "Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

Michel J. Paradis
Chief Financial Officer

March 2, 2015

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Independent auditors' report to the directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2014, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 2, 2015

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Statement of financial position

As at December 31 (in thousands of dollars)	2014	2013
Assets		
Investments (Note 4)	$ 22,253,391	$ 20,896,407
Investment-related receivables (Note 4)	65,977	74,447
Contributions receivable		
Members	17,985	26,354
Employers	26,668	37,637
Capital assets (Note 5)	2,331	2,510
Total assets	22,366,352	21,037,355
Liabilities		
Investment-related liabilities (Note 4)	99,991	85,596
Accounts payable and accrued charges	35,543	35,462
Contributions payable	–	1,240
Total liabilities	135,534	122,298
Net assets available for benefits	22,230,818	20,915,057
Pension obligations (Note 6)	22,562,386	21,894,206
Deficit (Note 7)	$ (331,568)	(979,149)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

M.E. (Peggy) Gilmour
Chair, Audit Committee

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Statement of changes in net assets available for benefits

For the year ended December 31 (in thousands of dollars)	2014	2013
Investment operations		
Net investment income (Note 8)	$ 1,641,904	$ 2,244,167
Operating expenses – investment operations (Note 10)	(19,604)	(15,675)
Net investment operations	1,622,300	2,228,492
Pension operations		
Contributions (Note 9)		
Members	310,338	298,928
Employers and sponsor	408,753	410,096
Transfer from other plans	81,382	90,748
Retirement pension payments	(989,261)	(958,750)
Termination and other benefits	(94,113)	(121,557)
Operating expenses – pension operations (Note 10)	(23,638)	(24,378)
Net pension operations	(306,539)	(304,913)
Net increase in net assets for the year	1,315,761	1,923,579
Net assets, at beginning of year	20,915,057	18,991,478
Net assets, at end of year	$ 22,230,818	$ 20,915,057

See accompanying notes

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Statement of changes in pension obligations

For the year ended December 31 (in thousands of dollars)	2014	2013
Pension obligations, at beginning of year	$ 21,894,206	$ 20,359,744
Increase in pension obligations		
Interest on pension obligations	1,292,110	1,199,486
Benefits accrued		
Service accrual	614,031	560,615
Transfer of service from other plans	81,382	90,748
Past service buybacks	31,838	28,313
Experience losses	3,959	–
Changes in actuarial assumptions (Note 6)	–	1,155,601
Total increase	2,023,320	3,034,763
Decrease in pension obligations		
Benefits paid	1,083,374	1,080,305
Experience gains	–	419,996
Changes in actuarial assumptions (Note 6)	271,766	–
Total decrease	1,355,140	1,500,301
Net increase in pension obligations	668,180	1,534,462
Pension obligations, at end of year	$ 22,562,386	$ 21,894,206

See accompanying notes.

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Notes to the financial statements

NOTE 1 *PUBLIC SERVICE PENSION ACT*

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the *Public Service Pension Act*, 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

NOTE 2 DESCRIPTION OF PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") Officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP Officers. The contribution rates for OPP Officers, inclusive of the additional 2% of salary, are 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. The contribution rates for OPP Civilians are 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act* (Canada) limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. In 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario ("AMAPCEO") members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program eligibility for AMAPCEO members was only applicable to those receiving layoff notices prior to April 1, 2014.

OPP Officers are eligible for a pension payable based on the average salary during the best 36-month period. Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period. In addition, OPP Officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death benefits

Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

e) Disability pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

In accordance with Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

a) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting the financial statements would relate to the determination of the pension obligations and the fair values of the Plan's Level 3 investments.

b) Investments

Investments are stated at fair value, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of financial instruments is determined as follows:

(i) Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the "Special Debentures"), bonds and real estate debt are valued at quoted market prices, where available. For those debt instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing.

(iv) Pooled fund values for publicly traded securities are supplied by the fund managers based upon fair value quotations.

(v) Derivative financial instruments consisting of foreign exchange forwards and equity futures contracts are recorded at fair value using year-end market prices.

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals.

(vii) Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund managers and adjusted for any transactions during the interim period up to the reporting date of these financial statements. For private debt instruments where this financial information is not readily available, the fair value of the private debt is determined by discounting future cash flows based on year-end market rates on comparable debt instruments.

(viii) Mortgages and other debt are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date. Distributions from investments in pooled funds are recognized when declared by the fund managers. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Gains or losses on the sale of investments are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the investment, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and the collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Net investment income (loss) also includes changes in fair values, which represent realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal and fair value adjustments on real estate, private market and alternative investments, and real estate debt. Transaction costs are expensed as incurred.

c) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries based on an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

d) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

e) Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

f) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

NOTE 4 INVESTMENTS

Investments before allocating the effect of derivatives contracts consist of the following:

As at December 31 (in thousands of dollars)	2014	2013
Cash and short-term investments		
Canada	$ 744,777	$ 1,401,992
United States and other international	178,848	330,941
	923,625	1,732,933
Fixed income		
Special Province of Ontario Debentures	–	374,542
Bonds		
Canada	5,527,631	4,757,047
United States and other international	778,617	766,769
	6,306,248	5,898,358
Equities		
Canada	2,117,745	1,562,709
United States	2,703,210	2,904,230
Other international	5,662,549	5,235,442
	10,483,504	9,702,381
Real estate (Note 4h)	3,366,011	2,871,335
Infrastructure	754,609	527,112
Private equity	359,765	108,272
Participating mortgages	59,629	56,016
Total investments	22,253,391	20,896,407
Investment-related receivables		
Pending trades	17,936	14,064
Derivatives receivable	48,041	60,383
	65,977	74,447
Investment-related liabilities		
Pending trades	29,278	13,467
Derivatives payable	70,713	72,129
	99,991	85,596
Net investments	$ 22,219,377	$ 20,885,258

a) Asset mix

As at December 31, 2014	Asset Allocation % Total Plan	 Target	 SIP&P Range
Asset categories			
Cash and equivalents	3.9%	3.0%	
Fixed income	28.4%	31.0%	
Real return bonds	0.0%	0.0%	
Fixed income	32.3%		10%–45%
Canadian equities	9.6%	10.5%	
Foreign developed equities	23.7%	20.0%	
Emerging equities	14.0%	15.0%	
Private equity	1.6%	1.0%	
Equity	48.9%		15%–75%
Real estate	15.4%	16.5%	
Infrastructure	3.4%	3.0%	
Real assets	18.8%		20%–45%
Total investments	100.0%	100.0%	

The Plan has adopted a new five-year Strategic Asset Allocation ("SAA") that was approved on September 19, 2014, which is summarized in the most recent Statement of Investment Policies and Procedures ("SIP&P") approved on December 16, 2014. A transition plan to achieve the newly adopted SAA was also approved on September 19, 2014. The transition plan will be phased in over a five-year period and, during such period, the asset mix of the Plan's investments may not fall within the SIP&P ranges. However, the ultimate goal of the Plan is to achieve the specified SIP&P ranges of each asset category by the end of the phase-in period.

As at December 31, 2013	Asset Allocation % Total Plan	 Target	 SIP&P Range
Asset categories			
Cash and equivalents	8.0%	2.0%	0%–10%
Fixed income	28.2%	31.0%	8%–40%
Real return bonds	0.0%	2.0%	0%–10%
Canadian equities	7.6%	10.5%	5%–15%
Foreign developed equities	23.7%	19.0%	8%–26%
Emerging equities	15.5%	15.0%	10%–20%
Private equity	0.5%	0.5%	0%–5%
Real estate	14.0%	18.0%	10%–30%
Infrastructure	2.5%	2.0%	0%–10%
Total investments	100.0%	100.0%	

As at December 31, 2013, the asset mix of the Plan's investments was within the acceptable ranges as specified in the SIP&P.

b) Financial instruments risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its SIP&P, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk comprises the following:

(i) Interest rate risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 6.4 years at December 31, 2014 (2013 – 5.9 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $404 million (2013 – $325 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed income maturities for further information.

(ii) Foreign currency risk – Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31, 2014 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 4,881,526	$ 279,731	$ (3,179,966)	$ 1,981,291
Hong Kong Dollar	550,818	1,902	(579)	552,141
Indian Rupee	388,158	8,609	(4,113)	392,654
South Korean Won	288,546	540	–	289,086
New Taiwan Dollar	245,620	103	–	245,723
Chinese Renminbi	243,272	–	–	243,272
Brazilian Real	254,718	2,906	(15,770)	241,854
Other	2,783,144	194,162	(1,802,743)	1,174,563
Total foreign	9,635,802	487,953	(5,003,171)	5,120,584
Canadian Dollar	12,634,486	4,596,849	(132,542)	17,098,793
	$ 22,270,288	$ 5,084,802	$ (5,135,713)	$ 22,219,377

As at December 31, 2013 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 4,993,124	$ 843,628	$ (3,605,114)	$ 2,231,638
Hong Kong Dollar	565,999	724	(8,895)	557,828
South Korean Won	339,560	5,802	(5,931)	339,431
Brazilian Real	227,400	8,810	(292)	235,918
Indian Rupee	229,405	–	–	229,405
South African Rand	178,060	505	(6,911)	171,654
Chinese Renminbi	167,958	–	–	167,958
Other	2,665,366	165,215	(1,524,444)	1,306,137
Total foreign	9,366,872	1,024,684	(5,151,587)	5,239,969
Canadian Dollar	11,577,300	4,802,358	(734,369)	15,645,289
	$ 20,944,172	$ 5,827,042	$ (5,885,956)	$ 20,885,258

The impact of a 5% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 5% of the net exposure of the impacted currency, as follows:

	Change in Exchange Rates	Change in Net Assets Available for Benefits as of December 31, 2014 (in thousands of dollars)			Change in Net Assets Available for Benefits as of December 31, 2013 (in thousands of dollars)		
U.S. Dollar	+/- 5%	+/-	$	99,065	+/-	$	111,582
Hong Kong Dollar	+/- 5%	+/-		27,607	+/-		27,891
Indian Rupee	+/- 5%	+/-		19,633	+/-		11,470
South Korean Won	+/- 5%	+/-		14,454	+/-		16,972
New Taiwan Dollar	+/- 5%	+/-		12,286	+/-		8,363
Chinese Renminbi	+/- 5%	+/-		12,164	+/-		8,398
Brazilian Real	+/- 5%	+/-		12,093	+/-		11,796
Other	+/- 5%	+/-		58,728	+/-		65,526
Total	+/- 5%	+/-	$	256,030	+/-	$	261,998

(iii) **Other price risk** – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 10% absolute change in the price of an investment, holding all other variables constant, is 10% of the net exposure of the impacted investment, as follows:

Equities	Stock Market Benchmark	Change in Price Index	Change in Net Assets as of December 31, 2014 (in thousands of dollars)			Change in Net Assets as of December 31, 2013 (in thousands of dollars)		
Canadian	S&P/TSX Composite Index	+/- 10%	+/-	$	212.9	+/-	$	158.6
Foreign	MSCI World (C$)	+/- 10%	+/-		526.6	+/-		492.6
Emerging	MSCI Emerging Equity Index (C$)	+/- 10%	+/-		311.7	+/-		323.7
Total			+/-	$	1,051.2	+/-	$	974.9

Credit risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2014, the Plan's greatest credit exposure in the form of interest-bearing securities is with the Province of Ontario for $740 million (2013 – $1.014 billion). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2014 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$ 1,289,411	$ 1,918,559	$ 1,004,203	$ 599,894	$ 536,336	$ 216,066	$ 15,693	$726,086	$ 6,306,248

Credit Rating as of December 31, 2013 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,118,823	$1,914,896	$1,001,240	$ 573,311	$ 403,397	$ 213,151	$ 14,538	$659,002	$ 5,898,358

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfilment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be liquidated on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions as well as interest and principal payments from the Special Debentures, which provided $376 million (2015 – $505 million) to the Plan. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2016 (in thousands of dollars)

< 1 year	1–5 years	5–10 years	10–20 years	> 20 years	Funds	Total
$ 697,490	$ 1,675,177	$ 1,612,171	$ 986,996	$ 1,160,663	$ 173,931	$ 6,306,249

Fixed Income Maturities as of December 31, 2015 (in thousands of dollars)

< 1 year	1–5 years	5–10 years	10–20 years	> 20 years	Funds	Total
$ 648,256	$ 1,621,388	$ 1,627,629	$ 687,994	$ 978,378	$ 154,535	$ 5,898,358

c) Cash and short-term investments

As at December 31 (in thousands of dollars)		2016		2015
Canada				
Cash	$	75,499	$	66,598
Short-term notes and treasury funds		672,860		1,346,325
Term deposits		15,500		8,400
Accrued interest		663		2,595
		764,777	$	1,401,992
United States and other international				
Cash		133,994		125,709
Short-term notes and treasury funds		45,844		204,924
Accrued interest		10		308
	$	179,848	$	330,941

d) Fixed income and equity investments

During 2016, the last remaining Special Debenture with an estimated fair value of $375 million and yield of 11.19% as at December 31, 2015 matured, leaving the Special Debentures balance at $nil as at December 31, 2016 (2015 – $375 million).

Included in the other international equities totals are $362 million (2015 – $321 million) related to pooled funds.

e) Derivatives

As at December 31 (in thousands of dollars)		2016 Notional		Fair Value		2015 Notional		Fair Value
Equity derivatives								
Futures	$	793,466	$	26,239	$	1,417,954	$	47,103
Currency derivatives								
Forwards		5,085,079		(59,911)		5,826,385		(58,818)
Value of derivatives contracts	$	5,878,545	$	(33,672)	$	7,244,339	$	(11,715)

All derivative contracts have remaining maturities within one year as at December 31, 2016.

f) Securities lending

[illegible]

g) Fair values

[illegible]

Level 1: [illegible]

Level 2: [illegible]

Level 3: [illegible]

[illegible]

As at December 31, 2018 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ [illegible]	$ [illegible]	$ –	$ [illegible]
United States and other international	[illegible]	[illegible]	–	[illegible]
Fixed income				
Special Province of Ontario Debentures	–	–	–	–
Bonds				
Canada	–	[illegible]	[illegible]	[illegible]
United States and other international	[illegible]	[illegible]	[illegible]	[illegible]
Equities				
Canada	[illegible]	–	–	[illegible]
United States	[illegible]	–	–	[illegible]
Other international	[illegible]	[illegible]	–	[illegible]
Futures	[illegible]	–	–	[illegible]
Participating mortgages	–	–	[illegible]	[illegible]
Real estate	–	–	[illegible]	[illegible]
Private equity	–	–	[illegible]	[illegible]
Infrastructure	–	–	[illegible]	[illegible]
Forward exchange contracts	–	[illegible]	–	[illegible]
	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Financial liabilities				
Forward exchange contracts	$ –	$ [illegible]	$ –	$ [illegible]

As at December 31, 2013 (in thousands of dollars)		Level 1		Level 2		Level 3		Total Fair Value
Financial assets								
Short-term investments								
Canada	$	44,698	$	1,357,294	$	–	$	1,401,992
United States and other international		125,709		205,232		–		330,941
Fixed income								
Special Province of Ontario Debentures		–		374,542		–		374,542
Bonds								
Canada		–		4,323,941		433,106		4,757,047
United States and other international		232		755,273		11,264		766,769
Equities								
Canada		1,562,709		–		–		1,562,709
United States		2,904,230		–		–		2,904,230
Other international		4,913,994		321,448		–		5,235,442
Futures		47,168		–		–		47,168
Participating mortgages		–		–		56,016		56,016
Real estate		–		–		2,871,335		2,871,335
Private equity		–		–		108,272		108,272
Infrastructure		–		–		527,112		527,112
Forward exchange contracts		–		13,215		–		13,215
	$	9,598,740	$	7,350,945	$	4,007,105	$	20,956,790
Financial liabilities								
Forward exchange contracts	$	–	$	(72,129)	$	–	$	(72,129)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2014 and 2013.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2014 and 2013.

(in thousands of dollars)		Fair Value as at January 1, 2014		Transfers In/(Out)		Acquisitions		Dispositions		Issuance of Debt		Fair Value Changes		Fair Value as at December 31, 2014
Financial assets														
Bonds														
Canada	$	433,106	$	–	$	32,234	$	(44,766)	$	–	$	(8,755)	$	411,819
United States and other international		11,264		–		19,195		(6,059)		–		595		24,995
Participating mortgages		56,016		–		–		–		–		3,613		59,629
Real estate		2,871,335		–		553,229		(54,918)		–		(3,635)		3,366,011
Private equity		108,272		–		261,128		(16,886)		–		7,251		359,765
Infrastructure		527,112		–		205,124		(10,980)		–		33,353		754,609
	$	4,007,105	$	–	$	1,070,910	$	(133,609)	$	–	$	32,422	$	4,976,828

(in thousands of dollars)	Fair Value as at January 1, 2013	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2013
Financial assets							
Bonds							
Canada	$ 368,520	$ –	$ 85,063	$ (5,102)	$ –	$ (15,375)	$ 433,106
United States and other international	–	–	10,892	–	–	372	11,264
Participating mortgages	50,875	–	–	–	–	5,141	56,016
Real estate	2,701,424	–	795,314	(478,954)	(250,000)	103,551	2,871,335
Private equity	103,370	–	10,637	(15,183)	–	9,448	108,272
Infrastructure	173,443	–	346,723	(27,585)	–	34,531	527,112
	$ 3,397,632	$ –	$ 1,248,629	$ (526,824)	$ (250,000)	$ 137,668	$ 4,007,105

h) Commitments and guarantees

As at December 31, 2014, OPB has provided funding commitments for certain investments in the amount of $1,671 million (2013 – $1,427 million) of which $772 million (2013 – $826 million) has been advanced to date.

OPB has provided a guarantee for the payment of principal and interest on $750 million in debentures which were issued in previous years by OPB Finance Trust, a trust established for the benefit of OPB and its related entities. Three series of debentures have been issued:

1. $350 million, Series A, 30-year debentures due 2042, with interest payable semi-annually at 3.89%.
2. $150 million, Series B, 50-year debentures due 2062, with interest payable semi-annually at 3.87%.
3. $250 million, Series C, 10-year debentures due 2023, with interest payable semi-annually at 2.90%.

The proceeds from the issuance of the 30-year and 50-year debentures were loaned to two OPB real estate subsidiaries. In turn, these real estate companies repaid amounts owed to OPB.

The proceeds from the issuance of the 10-year debentures were loaned to a real estate trust established for the benefit of OPB.

OPB's real estate investments are shown net of the OPB Finance Trust debentures and any other financings specifically assumed by these real estate entities.

In addition to the guarantee on the debentures, $35 million of letters of credit are guaranteed by OPB.

On February 24, 2015, OPB Finance Trust issued $250 million of Series D debentures. The debentures are due on February 24, 2022 with an interest rate of 1.88% per annum, calculated and payable semi-annually. The repayment of principal and interest for the Series D debentures is fully guaranteed by OPB.

NOTE 5 CAPITAL ASSETS

As at December 31 (in thousands of dollars)	Cost	Accumulated Depreciation	2014 Net Book Value
Computer equipment	$ 4,262	$ 3,613	$ 649
Furniture and fixtures	2,478	1,577	901
Leasehold improvements	1,607	826	781
Total capital assets	$ 8,347	$ 6,016	$ 2,331

As at December 31 (in thousands of dollars)	Cost	Accumulated Depreciation	2013 Net Book Value
Computer equipment	$ 3,712	$ 3,175	$ 537
Furniture and fixtures	2,460	1,345	1,115
Leasehold improvements	1,535	677	858
Total capital assets	$ 7,707	$ 5,197	$ 2,510

NOTE 6 PENSION OBLIGATIONS

a) Accounting basis

The value of pension obligations of $22.6 billion (2013 – $21.9 billion) is an estimate of pension benefit obligations accrued to date for members and retired members. The accounting valuation is determined by applying best estimate assumptions and the projected benefit method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2014 were computed by extrapolating data used for the December 31, 2013 funding valuation prepared by the independent actuary for management purposes.

Actuarial assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2014	2013
Investment return	5.95%	5.95%
Inflation	2.10%	2.10%
Real rate of return	3.85%	3.85%
Salary increases		
2014	0.5% + promotional scale 8.55% for OPP Officers	3.10% + promotional scale
2015	1.0% + promotional scale	3.10% + promotional scale
2016	1.5% + promotional scale	3.10% + promotional scale
2017	1.5% + promotional scale	3.10% + promotional scale
2018	2.0% + promotional scale	3.10% + promotional scale
2019	2.5% + promotional scale	3.10% + promotional scale
2020 and thereafter	3.1% + promotional scale	3.10% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2014, the changes in actuarial assumptions resulted in a decrease of $272 million (2013 – increase of $1,156 million) to the Plan's pension obligations. The short-term salary restraint assumption was the main contributor to the decrease. This was partially offset by updates to the mortality tables and short-term retirement and termination rates.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) ("*PBA*"). The *PBA* and the *Income Tax Act* (Canada) require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31, 2013, prepared by Aon Hewitt, which disclosed a funding shortfall of $804 million on a going-concern basis. The effective date of the next funding valuation that is required to be filed will be as at December 31, 2016.

The funding valuation is used as a basis for funding and Plan design decisions. Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

NOTE 7 DEFICIT

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2014 was $332 million (2013 – $979 million).

NOTE 8 NET INVESTMENT INCOME

For the year ended December 31 (in thousands of dollars)	Investment Income[1]	Fair Value Changes[2]	2014 Total	Investment Income[1]	Fair Value Changes[2]	2013 Total
Cash and short-term investments						
Canada	$ 13,603	$ 16,487	$ 30,090	$ 15,601	$ (2,666)	$ 12,935
United States and other international	1,735	(163,538)	(161,803)	1,830	(203,571)	(201,741)
	15,338	(147,051)	(131,713)	17,431	(206,237)	(188,806)
Fixed income						
Special Province of Ontario Debentures	14,208	(12,490)	1,718	61,655	(52,322)	9,333
Bonds						
Canada	235,655	257,127	492,782	209,894	(171,680)	38,214
United States and other international	53,187	14,378	67,565	46,371	(796)	45,575
	303,050	259,015	562,065	317,920	(224,798)	93,122
Equities						
Canada	52,105	93,010	145,115	38,621	336,841	375,462
United States	47,961	468,695	516,656	49,735	796,656	846,391
Other international	147,301	255,999	403,300	117,315	676,722	794,037
	247,367	817,704	1,065,071	205,671	1,810,219	2,015,890
Real estate	140,691	(3,635)	137,056	223,946	103,551	327,497
Infrastructure	18,215	33,353	51,568	3,637	34,531	38,168
Private equity	21,276	7,251	28,527	7,095	9,448	16,543
Participating mortgages	959	3,613	4,572	1,074	5,141	6,215
Total investment income	$ 746,896	$ 970,250	$ 1,717,146	$ 776,774	$ 1,531,855	$ 2 308 629
Investment management and custodial fees			(75,242)			(64,462)
Net investment income			$ 1,641,904			$ 2,244,167

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, real estate dividend income and distribution income from various pooled funds.

[2] Gains (losses) on cash and short-term investments include foreign exchange contracts.

a) Interest income

For the year ended December 31 (in thousands of dollars)	2014	2013
Cash and short-term investments		
Canada		
Cash	$ 6,541	$ 2,486
Short-term notes and treasury funds	6,984	13,019
Term deposits	78	96
	$ 13,603	$ 15,601
United States and other international		
Cash	$ 499	$ 1,044
Short-term notes and treasury funds	1,236	786
	$ 1,735	$ 1,830

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Dividend income

Dividend income includes $18.5 million (2013 – $8.2 million) from pooled equity funds.

c) Investment fees

For the year ended December 31 (in thousands of dollars)	2014	2013
Portfolio fund management	$ 58,239	$ 50,237
Transaction costs	10,641	9,347
Custodial	4,768	3,444
Private market	1,594	1,434
	$ 75,242	$ 64,462

Transaction costs include commissions and fees on trades.

NOTE 9 CONTRIBUTIONS

For the year ended December 31 (in thousands of dollars)	2014	2013
Members		
Current service required	$ 282,837	$ 274,734
Prior service	27,501	24,194
Total contributions from members	310,338	298,928
Employers		
Current service		
Regular contributions	283,063	274,588
PSSBA transfer	(10,253)	(13,363)
For members receiving Long Term Income Protection benefits	11,089	10,508
Prior service	4,337	4,120
	288,236	275,853
Sponsor payments		
Special payments	98,989	127,235
Additional current service	21,528	7,008
	120,517	134,243
Total contributions from employers and sponsor	408,753	410,096
Total contributions	$ 719,091	$ 709,024

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $99 million (2013 – $127 million) in Special Payments in 2014 towards the funding shortfall identified in the filed funding valuation as at December 31, 2013. In 2014, the Province made $22 million (2013 – $7 million) in additional employer current service contributions.

For 2014 and 2013, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2014 and 2013.

NOTE 10 OPERATING EXPENSES

Pension operations

For the year ended December 31 (in thousands of dollars)	2014	2013
Staffing costs	$ 13,097	$ 13,657
Staff development and support	193	281
Office premises and operations	3,120	3,274
Information technology and project management	5,174	5,216
Professional services	932	935
Communication	309	241
Depreciation	515	520
Board remuneration	68	92
Audit	230	162
	$ 23,638	$ 24,378

Investment operations

For the year ended December 31 (in thousands of dollars)	2014	2013
Staffing costs	$ 11,555	$ 9,133
Staff development and support	171	223
Office premises and operations	2,238	2,034
Information technology and project management	2,651	2,195
Professional services	2,222	1,484
Communication	133	103
Depreciation	302	249
Board remuneration	102	92
Audit	230	162
	$ 19,604	$ 15,675

Included in the above operating expenses are:

External audit services

For the year ended December 31 (in thousands of dollars)	2014	2013
External audit and related services provided to Ontario Pension Board	$ 253	$ 141
External audit and related services provided to and recorded by subsidiary operations	241	339
Total fees	$ 494	$ 480

Actuarial services

For the year ended December 31 (in thousands of dollars)	2014	2013
Actuarial services provided to Ontario Pension Board	$ 539	$ 404

NOTE 11 CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2013, which disclosed a funding shortfall of $804 million on a going-concern basis and a deficit of $871 million on a solvency basis. The effective date of the next required actuarial valuation for funding purposes is December 31, 2016.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. The SIP&P was last amended in December 2014, resulting in the asset mix targets as shown in Note 4(a). The Plan's rate of return expectation has been set in the SIP&P at a 3.85% real rate of return, net of fees.

NOTE 12 COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.

OPB
Your Pension. Our Promise.

Supplementary information

FIXED INCOME MATURITIES

As at December 31 (in thousands of dollars)	Fair Value	2014 Current Yield %	Fair Value	2013 Current Yield %
Special Province of Ontario Debentures				
0–1 year	$ –		$ 374,542	11.19
Bonds				
Canadian				
0–1 year	483,372	0.14–13.11	227,416	0.66–16.47
≥ 1–5 years	1,437,397	1.00–17.83	1,452,756	1.00–12.44
> 5–10 years	1,382,513	1.49–12.71	1,361,909	1.31–13.00
> 10 years	2,064,021	2.18–10.38	1,571,695	2.59–10.50
	5,367,303		4,613,776	
Etats-Unis et autres pays				
0–1 year	14,118	3.21–12.90	46,298	0.81–8.99
> 1–5 years	237,780	1.05–15.76	148,610	0.01–11.47
≥ 5–10 years	429,658	1.11–20.28	465,920	0.05–18.60
> 10 years	83,458	1.14–9.54	94,677	3.80–9.37
	765,014		755,505	
Fixed income funds	173,931		154,535	
Total fixed income	$ 6,306,248		$ 5,898,358	

INVESTMENTS OVER $75 MILLION

As at December 31, 2014 (in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
Cash and short-term investments			
Canada			
Government of Canada			$ 296,644
Fixed income			
OPB Investment Inc. (holding company, 100% owned)			$ 258,190
OPB Investment Ltd. (holding company, 100% owned)			148,085
Bonds			
Canada			
Province of Ontario	2016–2062	0.00–9.50	685,105
Canada Housing Trust No. 1	2016–2025	1.33–4.10	540,198
Government of Canada	2016–2064	1.00–10.50	434,091
Province of Quebec	2016–2055	0.00–9.63	304,206
Royal Bank of Canada	2016–2085	0.44–6.82	154,943
Bank of Nova Scotia	2015–2108	1.80–7.80	133,058
Royal Bank of Scotland	2022–2049	5.37–10.50	104,967
Canadian Imperial Bank of Commerce	2015–2108	1.5–10.25	96,916
Bank of Montreal	2015–2107	1.89–10.22	89,359
Loblaw Companies Ltd.	2019–2039	3.75–6.85	86,179
Real estate			
Investment in real estate holdings over $75 million, comprising: OPB Realty Inc. (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), RXR Real Estate Funds and OPB Finance Trust (financing entity, 100% beneficial interest), OPB Real Estate Investments Inc. (holding company, 100% owned), OPB Real Estate Investments 2 Ltd. (holding company, 100% owned), OPB (Centre 10) Inc. (holding company, 100% owned).			$ 4,026,576

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

(in thousands of shares/dollars)	Shares/Units[1]		Fair Value[1]
Infrastructure			
OPB Infrastructure 2 Ltd. (holding company, 100% owned)		$	539,923
OPB Infrastructure 3 Ltd. (holding company, 100% owned)			143,151
Equities			
Canada			
Toronto-Dominion Bank	2,928	$	162,541
Bank of Nova Scotia	1,773		117,539
Royal Bank of Canada	1,449		116,262
Canadian National Railway Co. Canada	1,243		99,490
Canadian Imperial Bank of Commerce	760		75,924
United States			
OPB Private Equity 5 Ltd. (holding company, 100% owned)			175,359
Johnson & Johnson	662		80,222
Other international			
Leith Wheeler International Fund	21,000		361,969
Taiwan Semiconductor Manufacturing Co.	16,769		127,737
Samsung Electronics Co Ltd.	132		111,143
Baidu Inc.	284		75,043

[1] Includes all share classes and American Depository Receipts.

REAL ESTATE PROPERTIES

As at December 31, 2014 (in thousands of square feet)	Location	Area
Retail		
Pen Centre	St. Catharines	1,040
Southgate Centre	Edmonton	942
St. Vital Centre	Winnipeg	928
Pickering Town Centre	Pickering	903
Erin Mills Town Centre	Mississauga	848
Woodgrove Centre	British Columbia	747
Midtown Plaza	Saskatchewan	731
Cornwall Centre	Saskatchewan	567
Halifax Shopping Centre	Halifax	532
Carlingwood Shopping Centre	Ottawa	529
Halifax Shopping Centre Annex	Halifax	420
West End Mall	Halifax	184
Erin Mills Town Plaza	Mississauga	59
		8,430
Office		
155 Wellington Street West	Toronto	1,211
Centre 10	Calgary	368
Pickering Office Tower/Durham College	Pickering	128
Halifax Office Complex	Halifax	114
		1,821
Residential		
Engelhart Apartments	Toronto	85
Total properties		10,336

[*] Southgate Centre and 155 Wellington Street West are 50% owned by Ontario Pension Board through its subsidiaries, OPB (Southgate) Inc. and OPB (155 Wellington) Inc. Woodgrove Centre, Midtown Plaza, Cornwall Centre, and Engelhart Apartments are 50% owned by Ontario Pension Board through its subsidiary OPB Real Estate Investments 2 Limited.

**Financial Services
Commission
of Ontario**

Deputy Superintendent
Pension Division

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**Commission des
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de l'Ontario**

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Ontario

June 23, 2015

**Pension Benefits Guarantee Fund
Management's Responsibility for Financial Information**

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act*, is responsible for the administration of the Pension Benefits Guarantee Fund.

Under the direction of the Superintendent, FSCO Management (Management) is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of Management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

In the administration of the Pension Benefits Guarantee Fund, Management is dedicated to the highest standards of integrity in provision of its services and has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards for Government Not-For-Profit organizations. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Lester J. Wong
Deputy Superintendent, Pensions

Kwan Lee
Chief Accountant

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the statement of financial position as at March 31, 2015 and the statements of operations and fund surplus, cash flows and re-measurement gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2015, and the results of its operations, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 25, 2015

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Statement of Financial Position

As at March 31, 2015

	March 31, 2015 ($'000)	March 31, 2014 ($'000)
ASSETS		
Current		
Cash (overdraft)	(120)	1
Accounts receivable	62,014	124,889
Investments (Note 4)	480,798	450,037
	542,692	574,927
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	6,440	11,384
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	32,040	50,016
	49,480	72,400
Loan payable (Note 5)	121,346	125,657
	170,826	198,057
Fund surplus from operation	371,687	376,717
Accumulated remeasurement gains (losses)	165	(8)
Fund surplus	371,852	376,709
	542,692	574,927

See accompanying notes to financial statements

Approved by:

Brian Mills
Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
Revenue		
Premium revenue (Note 3)	(536)	138,819
Pension plan recoveries (Note 7)	6,463	9,424
Investment income (Note 4)	5,283	4,389
	11,210	152,632
Expenses		
Claims	3,960	18,532
Amortization of loan discount (Note 5)	6,883	7,081
Pension consulting services (Note 8)	3,756	6,886
Administration fee (Note 9)	485	451
Investment management fees (Note 9)	155	130
	15,239	33,080
Excess (deficit) of revenue over expenses	(4,029)	119,552
Fund surplus, beginning of year	375,717	256,165
Fund surplus, end of year	371,687	375,717

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Statement of Cash Flows

For the year ended March 31, 2015

	March 31, 2015 ($ '000)	**March 31, 2014 ($ '000)**
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficit) of revenue over expenses	(4,029)	119,552
Items not affecting cash		
Amortization of loan discount (Note 5)	6,883	7,081
Losses on disposal of investments	492	116
	3,346	126,749
Changes in non cash working capital		
Accounts receivable	52,074	16,159
Claims payable	(17,076)	(27,823)
Accounts payable and accrued liabilities	(6,595)	210
	41,749	115,295
Cash flows from investing activities		
Purchases of investments	(3,258,352)	(3,633,576)
Proceeds from sale of investments	3,227,479	3,528,530
	(30,873)	(105,046)
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(124)	(751)
Cash position, beginning of year	1	752
Cash (overdraft) position, end of year	(123)	1

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2015

	March 31, 2015 ($ '000)	March 31, 2014 ($ '000)
Accumulated re-measurement gains (losses), beginning of year	**(8)**	**5**
Unrealized losses attributed to portfolio investments	(341)	(129)
Realized losses reclassified to the statement of operations	492	116
Accumulated re-measurement gains (losses), end of year	**143**	**(8)**

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2015

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1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund" or "PBGF") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the Act and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* and specifically, subsection 82(2) of the *Pension Benefits Act*, is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided to the Fund. The investments of the Fund are managed by the Ontario Financing Authority, on a fee-for-service basis which is paid by the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for Government Not-For-Profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-GNFPO accounting standards relating to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost as follows:

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.
- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims Payable

Claims payable are estimates of the liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the claim amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability that a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators from estimates provided by actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2015

(c) Premium Revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan's fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year.

The negative revenue for fiscal 2015 is due to an overestimation of premium revenue made during fiscal 2014. Better than estimated plan funding positions of these plans resulted in an overestimation of premium revenue.

	2015 ($'000)	2014 ($'000)
Estimated revenue	59,500	121,400
Actual revenue related to current and prior years received in current year	61,364	136,019
Less: prior year's estimated revenue	(121,400)	(118,600)
	(536)	**138,819**

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-GNFPO accounting standards requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

(e) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the basis of the financial presentation adopted in the current year.

4. INVESTMENTS

As the administrator, investing the assets of the Fund, FSCO has established a Pension Benefits Guarantee Fund Management Committee. The Committee has developed a Statement of Investment Policies and Guidelines which is reviewed regularly and provides operational objectives, investment principles, policies and guidelines for the management of the investments.

Investments consist of:

	2015 ($'000)		2014 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	273,097	273,097	443,819	443,819
Government bonds	207,671	207,528	6,418	6,426
	480,768	480,625	450,237	450,245

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the Money Market Portfolio at the end of the last quarter was $0.66M for a 1.00% change in rates. The market value sensitivity of the Government Bond Laddered Portfolio at the end of the last quarter was $0.85M for a 1.00% change in rates.

Discounted notes with maturities between April 2015 and July 2015 have yields in the range of 0.528% to 1.230% (2014 – maturities between April 2014 and July 2014 had yields in the range of 0.880% to 1.130%).

The government bonds maturing between December 2015 and December 2017 have yields in the range of 1.084 to 1.492% (2014 – maturing in October 2014 had yields of 1.515%).

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2015

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5. LOAN PAYABLE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330M loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11M. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55M.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its amortized cost outstanding as of March 31, 2015 as follows:

	2015 ($'000)	2014 ($'000)
Face Value	209,000	220,000
Less: Discount	(76,460)	(83,343)
Amortized Cost	132,540	136,657
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	121,540	125,657
Balance	132,540	136,657

The discount of $76.46M is amortized to loan discount expense over the term of the loan, based on the effective interest rate method. The amortization schedule for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2016	6,676
2017	6,458
2018	6,229
2019	5,989
2020	5,737

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6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue receivable of $61.3M, investment income receivable of $0.7M and the HST receivable of $0.02M.

The premium revenue receivable recorded is based on an assessment formula set out in section 37 of Regulation 909 of the Act and is calculated as follows:

- Base assessment of $5 per Ontario plan beneficiary plus specified percentages of the plans PBGF assessment base;
- Maximum assessment of $300 per Ontario plan beneficiary; and
- Minimum assessment of $250 for each plan.

The probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the HST receivable is considered to be minimal.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its cash flow obligations as they fall due. The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities and the Fund's exposure is limited to the assets of the Fund including any loans or grants received from the Province. As at March 31, 2015, the Fund has an investment balance of $481M (2014 - $450M) to settle current liabilities of $49M (2014 - $73M). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

7. PENSION PLAN RECOVERIES

Following the settlement of all benefits, payment of expenses and the submission of the final wind up report, any remaining funds are recovered by the Fund. During fiscal 2015, the Fund had $6.5M (2014 – $9.4M) in recoveries. Approximately $5.0M in recoveries is expected in the fiscal year 2016.

8. PENSION CONSULTING SERVICES

The Fund periodically engages the services of external experts to represent the Fund's interests in insolvency proceedings respecting employers who are unable to meet their funding obligations under the *Pension Benefits Act*. For fiscal 2015, $3.8M was paid to such external experts (2014 - $6.9M paid).

9. RELATED PARTY TRANSACTIONS

For fiscal 2015, an administration fee of $0.5M (2014 - $0.5M) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees consist mainly of fees paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in note 5.

10. CONTINGENT LIABILITIES

There is currently a company operating under *Companies' Creditors Arrangement Act* protection whose pension plans could make significant claims on the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.

Provincial Judges Pension Fund

Management Responsibility for Financial Reporting

The financial statement has been prepared in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013 and of necessity include some amounts that are based on estimates and judgements. The financial statement has been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2015.

Management is responsible for the integrity of the financial statement and maintains a system of internal control designed to provide reasonable assurance that the financial information is accurate and reliable and the Fund's deposits and payments are adequately accounted for. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statement has been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether it has been prepared in accordance with the financial reporting provisions prescribed by the Standstill Agreement. The Independent Auditor's Report that appears as part of the financial statement outlines the scope of the Auditors examination and opinion.

On behalf of management

Mark A. [illegible]
Director, Managed Plans
Ontario Pension Board

Janette [illegible]
Director, Total Compensation Strategy Branch
Treasury Board Secretariat

Rob Gagné
Director, Payroll Operations Branch
Pay and Benefits Services Division
Ontario Shared Services
Ministry of Government and Consumer Services

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Provincial Judges Pension Board and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2015, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions prescribed by the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement) dated December 20, 2013.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation of this financial statement in accordance with the financial reporting provisions prescribed by the Standstill Agreement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement of the Provincial Judges Pension Fund as at March 31, 2015 is prepared in accordance with the financial reporting provisions prescribed by the Standstill Agreement.

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the reporting requirements of the Standstill Agreement, and as a result the financial statement may not be suitable for another purpose.

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Toronto, Ontario
June 11, 2015

Susan Klein, CPA, CA, LPA
Assistant Auditor General

Provincial Judges Pension Fund

Statement of Changes in Fund Balance

For the Year Ended March 31, 2015

	2015 ($ 000)	2014 ($ 000)
Deposits		
Contributions		
Participants	4,285	4,246
Province of Ontario (Note 4)	38,512	33,282
Interest earned	43,292	44,940
	86,089	82,468
Payments		
Pension payments and survivor allowances	35,463	32,447
Refund of contributions	196	414
	35,659	32,861
Net increase in the Fund	50,430	49,607
Fund Balance with the Minister of Finance		
Beginning of year	759,060	709,453
End of year	809,490	759,060

See accompanying notes to the financial statement.

Approved on behalf of the Board

D. A. Oakley

Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2015

1. Description and Administration of the Fund

The then-Ministry of Government Services is responsible for overall oversight of the Provincial Judges Pension Fund [Fund] including administration of all contributions to the funds and interest earned. As of March 2015, these responsibilities were transferred to the Treasury Board Secretariat. The Provincial Judges Pension Board [Board], as originally designated by Ontario Regulation 67/92 of the Courts of Justice Act, is responsible for the administration of pension payments and survivor allowances.

On Oct 31, 2013, Ontario Regulation 67/92 was repealed and was replaced by Ontario Regulation 290/13 under the same legislation. The new Regulation splits the Provincial Judges Pension Fund into two plans, the Provincial Judges Pension Fund and the Provincial Judges Supplementary Pension Account.

The Fund is registered for income tax purposes and provides for pension benefits up to the limit permitted under the Income Tax Act. The Provincial Judges Supplementary Pension Account provides for pension benefits above the limit prescribed by the Income Tax Act for post-1991 service.

On December 20, 2013, a Court Order was issued, based on an agreement among parties to the litigation, that effectively ordered management to administer the Fund as one plan with the same administrative practices as were in place under Ontario Regulation 67/92, until litigation challenging the constitutionality of the Provincial Judges Supplementary Pension Account is resolved (Memorandum of Agreement called the "Standstill Agreement"). Pursuant to the direction of the Canada Revenue Agency, the administrative practices for the Provincial Judges Pension Plan were and continues to be to administer the Plan in a manner consistent with the requirements of the Federal Income Tax Act and related Income Tax Act Regulations.

As a result, this financial statement continues to be presented as one Fund.

The Fund is held within the Consolidated Revenue Fund of the Province of Ontario and is included as an employee future benefit liability within the consolidated financial statements of the Province.

The Fund is not subject to the reporting requirements under the Pension Benefits Act and Regulations.

The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulations.

(A) GENERAL

The purpose of the Fund is to provide pension payments to retired Provincial Judges who are members of the Plan or survivor allowances to the dependents of these Judges.

(B) FUNDING POLICY

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2015

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1. Description and Administration of the Fund (Continued)

(C) PENSION PAYMENTS

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(D) DISABILITY PENSION PAYMENTS

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(E) SURVIVOR ALLOWANCES

A survivor allowance equal to 60% of the qualifying judge's pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined by Regulation.

(F) DEATH REFUNDS

A death refund can be payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(G) WITHDRAWAL REFUNDS

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

(H) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

- Judges Retired Before June 1, 2007:

The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. In addition, the pensions are adjusted based on the salary increases of sitting judges as recommended by the Provincial Judges Remuneration Commission.

- Judges Retired On Or After June 1, 2007:

The annual inflationary increase for judges who retired on or after June 1, 2007 and elected to be paid under the plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2015

1. Description and Administration of the Fund (Continued)

(I) INTEREST REVENUE

Interest is credited to the account for the Fund, held in the Consolidated Revenue Fund of the Province of Ontario, at the average of the monthly Ontario Borrowing Rates for a 25-year maturity as follows:

- on the net monthly increases to the account accumulating during the fiscal year at the interest rate for the fiscal year; and
- on the net increases to the account for each of the preceding 25 years at the interest rates applicable to those years, providing the funds remain on deposit with the Consolidated Revenue Fund.

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

The financial statement is prepared by management in accordance with the Memorandum of Agreement between the Ontario Conference of Judges and the Lieutenant Governor in Council, the then-Minister of Government Services and the Provincial Judges Pension Board (the Standstill Agreement). The basis of accounting prescribed by the Standstill Agreement is consistent with both the repealed Regulation 67/92 and the current Regulation 290/13 under the Courts of Justice Act and consists of contributions and money paid, transferred or credited to the Fund, less money paid out, except for the fact no Supplementary Pension Account was established.

3. Administrative Expenses

Administrative expenses are paid by the Province of Ontario and are not reflected in this financial statement.

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under the *Courts of Justice Act* to conduct an independent review of the salary, pension and benefits for all provincial judges. The Commission's salary and non-pension benefits recommendations are binding; recommendations on pension benefits are non-binding. The most recent report of the Commission was the Eighth Provincial Judges Remuneration Commission released on November 12, 2013, covering the period April 1, 2010 to March 31, 2014. The report did not recommend any salary increases in addition to the annual inflationary increases already received. A new Commission, once appointed, is expected to issue recommendations covering the period from April 1, 2014 to March 31, 2018.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The Provincially determined contribution for fiscal 2015 was $34,512,000, which maintained contributions consistent with recommendations in the March 31, 2011 actuarial funding valuation, as a current actuarial valuation had yet to be performed. Any required adjustments to contributions, as a result of performing a current actuarial valuation, will be accounted for in the period the valuation is performed.

Significant assumptions in the March 31, 2011 actuarial funding valuation, the most recent valuation conducted, are as follows:

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2015

Assumption	March 2011 Valuation
Expected Return on Plan Assets	4.60%
Discount Rate on Future Cash Inflows	4.60%
Salary Rate Increases	4.00%
Age of Retirement	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method

The Public Guardian and Trustee
For the Province of Ontario

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Public Guardian and Trustee for the Province of Ontario adheres to legislation and regulatory requirements. These systems include the communication of policies and the Public Guardian and Trustee for the Province of Ontario's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). The Auditor's Report outlines the scope of the auditor's examination and opinion.

Kenneth R Goodman

Kenneth R. Goodman
Public Guardian and Trustee

Joy Stevenson, CA, CFA, CFE
Chief Financial Officer

June 19, 2015

Office of the Auditor General of Ontario
Bureau du verificateur general de l'Ontario

Independent Auditor's Report

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the statement of financial position as at March 31, 2015, and the statements of income and comprehensive income, statement of changes in net assets attributable to beneficiaries of estates and trusts administered, statement of changes in equity of the administration fund and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Public Guardian and Trustee for the Province of Ontario as at March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Toronto, Ontario
June 19, 2015

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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Statement of Financial Position

As at March 31
In thousands of dollars

	Note	2015	2014
Estates and Trusts			
Assets			
Cash and cash equivalents	4.1	$ 72,055	$ 69,326
Accounts receivable	6	5,366	8,673
Investments at fair value through profit or loss:			
Bonds and other debt securities - client owned	4.1	40,172	40,101
Diversified fund	4.2	83,429	76,112
Canadian income and dividend fund	4.3	86,721	82,177
Equity securities - client owned	4.4	33,019	31,798
Held to maturity investments:			
Fixed income funds	4.5	1,143,364	1,113,387
Real estate		96,142	94,395
Other assets	7	14,360	14,468
Total assets		1,574,618	1,530,437
Liabilities			
Accounts payable and accrued liabilities	8	47,576	49,295
Net assets attributable to beneficiaries of Estates and Trusts		1,527,042	1,481,142
Total liabilities and net assets attributable to beneficiaries of Estates and Trusts		$ 1,574,618	$ 1,530,437
Administration Fund			
Assets			
Cash and cash equivalents		$ 2,614	$ 2,717
Accounts receivable	6	2,261	4,683
Investments at fair value through profit or loss			
Diversified fund	4.2	73,637	65,571
Canadian income and dividend fund	4.3	23,233	22,602
Total assets		101,745	95,573
Liabilities			
Accounts payable and accrued liabilities	8	5,019	8,301
Total liabilities		5,019	8,301
Equity			
Funds and reserves		17,500	17,500
Unappropriated fund		79,226	69,772
Total equity		96,726	87,272
Total liabilities and equity		$ 101,745	$ 95,573

On behalf of The Public Guardian and Trustee for the Province of Ontario

Public Guardian and Trustee

Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Statement of income and comprehensive income - Estates and Trusts

For the year ended March 31 *in thousands of dollars*	Note	2015	2014
Estates and Trusts			
Income			
Pensions		$ 90,708	$ 86,176
Social benefits		90,369	84,968
Other income		36,757	33,838
		217,834	204,982
Expenses			
Accommodation		116,397	112,602
Allowances		40,973	40,489
Fees charged by the Public Guardian and Trustee	10	26,614	24,724
Living expenses		10,020	9,621
Taxes		9,296	9,353
Real estate		8,898	9,977
Other expenses		7,240	7,014
Medical expenses		6,360	6,109
Funeral expenses		6,059	5,654
Utilities		5,016	4,683
Insurance		1,795	1,752
Total expenses		238,668	231,978
Net investment income			
Interest income from fixed income funds		27,710	29,516
Other interest and dividend income	11	8,301	8,220
Net realized gain on sale of investments	12.1	5,517	4,865
Net realized and unrealized foreign exchange gain		1,807	1,691
Net unrealized gain on investments at fair value through profit or loss	12.2	5,896	14,031
		49,231	58,323
Total income and comprehensive income for the year		$ 28,397	$ 31,327

The accompanying notes are an integral part of these financial statements.

Statement of income and comprehensive income - Administration Fund

For the year ended March 31
In thousands of dollars

	Note	2015	2014
Administration Fund			
Revenue			
Fees charged on estates and trusts	10	$ 26,614	$ 24,724
Grants received from the Ministry of the Attorney General	16	16,869	16,395
		43,483	41,119
Expenses			
Salaries, wages and benefits	14	34,706	34,063
General administration	15	3,208	2,973
Fees incurred		1,660	1,523
Transportation and communication expenses		1,054	1,053
Supplies and equipment expenses		320	352
Claims		99	771
Amortization of intangible assets:			
Computer Software - Client Management Information System	9	-	2,336
		41,047	43,066
Net investment income			
Other interest and dividend income	11	2,719	2,856
Interest income/(expense) from fixed income funds		246	(864)
Net realized and unrealized foreign exchange gain		1,596	1,457
Net realized gain on sale of investments	12.1	3,213	2,480
Net unrealized gain on investments at fair value through profit or loss	12.2	1,169	5,004
		8,943	10,933
Investment expenses	13	1,925	1,846
Net investment income		7,018	9,087
Total income and comprehensive income for the year		$ 9,454	$ 7,140

The accompanying notes are an integral part of these financial statements.

Statement of changes in net assets attributable to beneficiaries of Estates and Trusts Administered

(in thousands of dollars)

		Client Trusts	Minors	Litigants	Deceased Estates	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles		Total
Balance at March 31, 2013	$	580,139	387,751	273,650	150,236	26,756	20,313	20	1,471	$	1,470,342
Total income/(loss) and comprehensive income/(loss) for the year		11,281	17,176	5,510	(3,000)	477	399	54	67		31,327
Other changes in net assets attributable to beneficiaries											
Contributions during the year		181,295	61,670	112,350	80,091	1,020	1,910	-	21		469,254
Distributions during the year		(152,671)	(67,742)	(107,799)	(45,541)	(388)	(109)	(1)	(150)		(375,325)
Other adjustments to Client accounts		492	800	472	(7,164)	49	8	-	-		(5,363)
Funds escheated to the Crown (note 17)		-	-	-	(1,113)	-	-	-	-		(1,113)
Total increase/(decrease) in net assets attributable to beneficiaries		39,277	11,909	10,550	(3,332)	1,178	2,217	53	(62)		62,000
Balance at March 31, 2014	$	599,467	399,660	284,279	147,504	28,034	22,530	82	1,309	$	1,483,163
Total income/(loss) and comprehensive income/(loss) for the year		11,893	13,076	5,505	(2,464)	30	300	152	37		28,397
Other changes in net assets attributable to beneficiaries											
Contributions during the year		170,665	46,521	102,450	62,094	1,211	3,012	-	-		421,873
Distributions during the year		(153,013)	(61,288)	(143,699)	(36,423)	(669)	(3)	(1)	(420)		(395,674)
Other adjustments to Client accounts		4,050	(1,427)	(6,297)	8	-	-	-	-		(3,679)
Funds escheated to the Crown (note 17)		-	-	-	(3,077)	-	-	-	-		(3,077)
Total increase/(decrease) in net assets attributable to beneficiaries		33,390	(3,120)	7,760	25	640	3,300	150	(383)		45,800
Balance at March 31, 2015	$	633,853	394,540	292,039	147,529	28,643	25,830	237	1,006	$	1,527,963

The accompanying notes are an integral part of these financial statements

Statement of changes in equity of the Administration Fund

(in thousands of dollars)

	Client Management Information System Reserve	Insurance Fund	Litigation Reserve Fund	Reserve for Doubtful Accounts	Capacity Assessment Fund	Total Funds and Reserves	Unappropriated Fund	Total
Balance at March 31, [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Total income for the year	-	-	-	-	-	-	[illegible]	[illegible]
Transfers to/(from) reserves								
Transfers made during the year	-	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	-
Reserves released during the year	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	-
Total increase/(decrease) in equity	[illegible]	-	-	-	-	[illegible]	[illegible]	[illegible]
Balance at March 31, [illegible]	$ -	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Total income for the year	-	-	-	-	-	-	[illegible]	[illegible]
Transfers to/(from) reserves								
Transfers made during the year	-	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	-
Reserves released during the year	-	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	-
Total increase/(decrease) in equity	-	-	-	-	-	-	[illegible]	[illegible]
Balance at March 31, [illegible]	$ -	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

The accompanying notes are an integral part of these financial statements.

Statement of Cash flows

For the period ended March 31 *in thousands of dollars*	Estates and Trusts 2015	Estates and Trusts 2014	Administration Fund 2015	Administration Fund 2014
Cash flows from operating activities				
Income and comprehensive income	$ 28,397	$ 31,327	$ 9,454	$ 7,140
Adjustments for:				
Amortization of intangible assets:				
Computer Software - Client Management Information System	-	-	-	2,326
Net unrealized (gain)/loss on investments and foreign currency at fair value	(7,121)	(15,833)	(2,765)	(6,462)
Changes in working capital items				
Accounts receivable	3,307	(3,726)	2,422	(1,351)
Accounts payable and accrued liabilities	(1,719)	(4,289)	(3,282)	3,342
Net cash from operating activities	22,864	7,927	5,829	4,995
Cash flows from investing activities				
Acquisition of investments	(1,161,836)	(1,215,589)	(5,932)	(4,734)
Proceeds from sale of investments	1,125,037	1,182,574	-	2,100
Acquisition of real estate	(41,819)	(42,075)	-	-
Proceeds from sale of real estate	40,072	46,384	-	-
Net (increase)/decrease in other assets	100	(589)	-	-
Net cash from investing activities	(37,438)	(29,295)	(5,932)	(2,634)
Cash flows from financing activities				
Client Capital Contributions	421,873	406,264	-	-
Client Capital Distributions	(399,814)	(366,325)	-	-
Client Capital Net Other	(4,756)	(8,466)	-	-
Net cash from financing activities	17,303	31,473	-	-
Increase (decrease) in cash and cash equivalents	2,729	10,305	(103)	2,361
Cash and cash equivalent, beginning of the year	69,326	59,021	2,717	356
Cash and cash equivalent, end of the year	$ 72,055	$ 69,326	$ 2,614	$ 2,717

The accompanying notes are an integral part of these financial statements.

Notes to financial statements
March 31, 2015 and 2014

1. Reporting entity

The Office of the Public Guardian and Trustee for the Province of Ontario, Canada ("The Public Guardian and Trustee" or "OPGT") is part of the Province of Ontario's Ministry of the Attorney General. The Public Guardian and Trustee is appointed under *The Public Guardian and Trustee Act* and performs duties under a number of statutes with the following main responsibilities:

- The guardianship of property of incapable adults;
- The administration of estates of persons who have died in Ontario intestate and without next-of-kin;
- The gathering of assets reverting to the Crown under the Escheats Act;
- The management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants; and
- A general supervisory role over charitable property.

The Public Guardian and Trustee has perpetual succession and an official seal and may sue and be sued in his or her corporate name. The Office of The Public Guardian and Trustee has close to 400 staff located in six regional offices throughout the Province of Ontario with the main office located in Toronto at 595 Bay Street, Suite 800, Toronto, ON, M5G 2M6.

These financial statements comprise the following:

a) Estates and Trusts:	This represents accounts administered by the Public Guardian and Trustee acting as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes;
b) Administration Fund:	This represents the operating account of The Public Guardian and Trustee. The Administration Fund is used to accumulate fees charged to each estate and trust for services as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act*. Operating grants are received as required from the Ministry of the Attorney General to fund the operations of OPGT. Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act*.

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of miscellaneous securities and documents having a face value of $1,038,283 (March 31, 2014: $1,025,790) and mortgages as required. These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Public Guardian and Trustee on June 19, 2015.

Notes to financial statements (continued)
March 31, 2015 and 2014

2. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the investments at fair value through profit or loss in the statement of financial position which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for both Estates and Trusts and the Administration Fund. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in notes 3(c), 3(d) and note 5.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into Canadian Dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted to Canadian Dollars at the exchange rate at the reporting period end date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in Canadian Dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting period end date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian Dollars at the exchange rate on the reporting period end date. Foreign currency differences arising on translation are recognized in profit or loss on a net basis.

Notes to financial statements (continued)
March 31, 2015 and 2014

3. Significant accounting policies (continued)

(b) Net investment income

Net investment income comprises interest income on funds invested, dividend income, gains on the disposal of investment securities, changes in the value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Income and expenses are presented on a net basis only when permitted under IFRS, for example, gains and losses from financial instruments at fair value through profit or loss.

(i) Interest income and expense

Interest income and expense is recognized on an accrual basis in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, estimates are made of future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(ii) Dividend income

Dividend income is recognized in profit or loss on the date that the fund's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Net gain on investments at fair value through profit or loss

Net gain on investments at fair value through profit or loss includes realized and unrealized fair value changes, but excludes interest and dividend income. The net realized gain on investments at fair value through profit or loss is calculated using the average cost method.

(c) Financial assets and liabilities

(i) Financial assets

Financial assets in OPGT include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Public Guardian and Trustee does not directly enter into derivative financial contracts.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss upon initial recognition when the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund manages, evaluates and reports internally such investments on a fair value basis and makes purchase and sale decisions based on their fair value in accordance with their documented risk management or investment strategies. Upon initial recognition, transaction costs associated with the asset are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Public Guardian and Trustee does not acquire or hold financial instruments for the purpose of trading or short-term profit taking on behalf of the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss comprise investments in client-owned bonds and other debt securities, the Diversified Fund, the Canadian Income and Dividend fund and client-owned equity securities.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows or when substantially all the risks and rights of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, OPGT has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Notes to financial statements (continued)
March 31, 2015 and 2014

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(i) Financial assets (continued)

Held-to-maturity financial assets

If the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, which includes any premium or discount, plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent these investment securities from being classified as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise investments in fixed income funds. Fixed income funds are funds invested in money-market instruments and in bonds under a laddered buy-and-hold strategy.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Loans and receivables comprise accounts receivable.

Loans and receivables of Estates and Trust clients are recognized initially on the date that the OPGT assumes guardianship of an individual's property or becomes the estate trustee. All other purchases and sales of financial assets (including assets designated at fair value through profit or loss) are recognized on the settlement date, which is the date that the financial assets are delivered to or on behalf of Estates and Trusts.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits with banks. All cash equivalents are highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

(ii) Financial liabilities

Financial liabilities are recognized initially on the date at which the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund become a party to the contractual provisions of the instrument. The Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities comprise accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(iii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date. Fair value does not take into considera- tion transaction costs expected to be incurred on transfer or disposal of a financial instrument.

The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as ac- tive if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by compar- ison with other observable current market transactions in the same instrument (i.e., without modification or re-packaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transac- tion is closed out.

Equity and fixed income securities publicly traded are measured at the bid price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counter party where appropriate.

All changes in fair value are recognized in profit or loss as part of net gain from financial instruments at fair value through profit or loss. Other interest and dividend income is recognized in profit and loss separately.

(iv) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that its value is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired includes significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of an amount due on terms that the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to financial statements (continued)
March 31, 2015 and 2014

3. Significant accounting policies (continued)

(d) Real estate and other assets

Real estate included within the statement of financial position primarily represents residential properties currently owned by clients of The Public Guardian and Trustee. Other assets comprise jewellery, art, collectibles, nominal assets, vehicles, cash value of insurance policies, prepaid funeral costs and similar items. The IFRS Framework identifies acceptable measurement bases for all assets, which include cost and fair value.

The policy is to measure real estate assets at historic cost and other assets at the fair value determined when the asset is initially recognized.

(e) Intangible assets:

Computer software – Client Management Information System

(i) Recognition and measurement

Intangible assets that are acquired by the Administration Fund and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other costs including the costs of day-to-day servicing of intangible assets are recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the life of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative period is 5 years.

(f) Operating leases

All the leases entered into by the Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund are classified as operating leases and are not recognized in the statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred or when they are reasonably estimable and become known.

Notes to financial statements (continued)
March 31, 2015 and 2014

3. Significant accounting policies (continued)

(g) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term employee benefit plans if the Administration Fund has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Ministry of Government and Consumer Services (MGS) funds the employer's contribution to the Pension Funds. In addition, the cost of post-retirement, non-pension employee benefits are paid by MGS. As such, the Public Guardian and Trustee makes no contributions on these post-employment benefit plans. There is no contractual agreement or stated policy for charging the net benefit cost for the plans as a whole (measured in accordance with IAS 19, *Employee Benefits*) to individual reporting entities of the Government of Ontario. As a result, the costs associated with post-employment benefits are not reflected in the financial statements.

(h) Income and expenses

Income from pensions, social benefits and settlements and items of a related nature is recognized when received or receivable. Other income comprising compensation, transaction and service fees are recognized as the related services are performed.

Expenses are recognized as incurred on an accrual basis. Investment management fees, placement and transaction fees that do not qualify for inclusion as part of the initial measurement of an asset are expensed as the services are received.

(i) Government grants

Grants are in the form of funding of the Public Guardian and Trustee operating expenses as the expenses are incurred. Grants that compensate the Administration Fund for the operations of The Public Guardian and Trustee by way of amounts recovered from the Ministry of the Attorney General, are recognized in profit or loss as income on a systematic basis in the same periods in which the expenses are recognized.

(j) Income taxes

The Public Guardian and Trustee is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

(k) Funds and reserves – Administration Fund

Client Management Information System Reserve

This reserve represents funds that were appropriated for the specific purpose of developing and implementing a new client management information system. The client management information system was developed from 2002 to 2009. During each reporting period, an amount equal to the amortization charge incurred on the client management information system is transferred from this reserve to the Unappropriated Fund.

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable. During the year, the Assurance Fund released and was reimbursed $242,929 (2014: $585,751) by the Unappropriated Fund.

Litigation Reserve Fund

This reserve is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation guardian clients. During the year, recoveries exceeding legal costs incurred on behalf of clients of $162,262 (2014: $158,417 were released from this reserve and were reimbursed from the Unappropriated Fund) were reimbursed to the Unappropriated Fund.

Notes to financial statements (continued)
March 31, 2015 and 2014

3. Significant accounting policies (continued)

(k) Funds and reserves (continued)

Reserve for Doubtful Accounts

The intent of this reserve is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund

This reserve was set up to cover fees of capacity assessors when a client is unable to pay costs of an assessment or re-assessment. During the year, the Capacity Assessment Fund released and was reimbursed $18,298 (2014: $26,702) by the Unappropriated Fund.

Unappropriated Fund

Pursuant to Section 9(5) of the *Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund. No such transfers were made during the year.

(l) Provisions

A provision is recognized if, as a result of a past event, the Public Guardian and Trustee has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) New standards and interpretations not yet adopted

IFRS 9, Financial Instruments

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial asset: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss account (P&L). A financial asset would be measured at amortized cost if it is held within a business model whose object is to hold assets in order to collect contractual cash flows, and the asset's contractual cash terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual security-by-security basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The required implementation date of IFRS 9 has been postponed indefinitely. Although early application is permitted, management does not plan to adopt this standard until necessary for the OPGT. Management expects that the adoption of this standard will not have a significant impact on the measurement of the amounts recognized in the financial statements.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. Management expects that this standard does not have a significant impact on financial statements.

Notes to financial statements (continued)
March 31, 2015 and 2014

4. Investments in financial assets

4.1 Estates and Trusts – cash and cash equivalents, bonds and other debt securities – client owned *As at March 31*

(thousands of dollars)	**2015**	2014
Cash and cash equivalents		
Cash	25,034	31,048
Short-term investments	47,021	38,278
	72,055	69,326
Client owned – Bonds and other debt securities		
Bonds – Federal Government Bonds	1,751	1,449
– Provincial Governments Bonds –	1,004	1,132
Corporate	4,264	4,318
Other Debt Securities – Financial institutions	33,153	33,202
	40,172	40,101
	112,227	109,427

These balances do not include client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of their unit holdings in the various OPGT funds.

The short term investments, notes and bonds have an annual interest of between 0.00–11.7% (2014: 0.01–11.7%) and, at the reporting date, have remaining maturity periods ranging between 0–30 years (2014: 0–14 years).

Interest rates on mid term investments (notes and bonds with maturities greater than one year) are as follows:

Bonds – Federal Government		
1–3 years	0.5–8.0%	0.5–7.5%
3 years +	0.00–1.5%	0.01–3.5%
Bonds – Provincial Governments		
1–3 years	1.25–6.10%	0.1–7.5%
3 years +	4.25–4.40%	3.8–6.1%
Bonds – Corporate		
1–3 years	5.10–6.14%	2.50–5.70%
3 years +	6.45%	5.16–6.45%
Financial institutions		
1–3 years	0.00–11.7%	0.01–11.7%
3 years +	1.00–4.58%	1.00–4.58%

Interest income is distributed to client accounts based on an interest rate as approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the approved rate for Canadian funds from April 1, 2014 to August 31, 2014 : 2.75% , September 1, 2014 to December 31, 2014: 2.50% and from January 1, 2015 to March 31, 2015: 2.25% (at March 31, 2014: 2.75%), and for the United States Dollar funds: 0.30% (2014: 0.30%).

Notes to financial statements (continued)
March 31, 2015 and 2014

4. Investments in financial assets (continued)

4.2 Diversified fund

The Public Guardian and Trustee has a Diversified fund that includes high quality equity and fixed income securities. This fund is a unitized trust and was established in order to provide an alternative for those clients whose investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance capital over the longer term.

As at March 31 ***(in thousands of dollars)***	2015	2014
Cash	3,264	1,861
Short-term notes	2,279	369
Bonds	47,879	45,946
Canadian equity securities	59,258	54,407
Foreign equity securities Net	44,090	38,834
other (liabilities)/assets	296	266
	157,066	141,683

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.875–12.20% (2014: -0.95–12.2 %) and, at the reporting date, have remaining maturity periods ranging between 10 days to 93 years (2014: 1 month to 53 years). The weighted average yield on investments in Canadian and Foreign equity securities is 14.50% (2014: 26.22%).

The financial assets held in the Diversified fund as at March 31, 2015 are held by:

in thousands of dollars	2015	2014
Estates and Trusts	83,429	76,112
Administration Fund	73,637	65,571
	157,066	141,683

The investment returns on this fund accrue directly to the unit holders.

4.3 Canadian income and dividend fund

The Public Guardian and Trustee has a Canadian income and dividend fund that consists of a balanced portfolio of high quality income-producing Canadian securities. The fund includes dividend-paying common and preferred equities and fixed income securities intended to generate a consistent stream of income and long-term capital appreciation. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee.

As at March 31 ***(in thousands of dollars)***	2015	2014
Cash	364	173
Short-term notes	474	851
Bonds	49,744	43,974
Canadian equity securities	58,054	58,884
Other assets	1,318	897
	109,954	104,779

Notes to financial statements (continued)
March 31, 2015 and 2014

6. Investments in financial assets (continued)

6.3 Canadian income and dividend fund (continued)

The short term notes and bonds yield, on a fair value basis, annual interest of between 0.95–11.0% (2014: 0.95–11.0%) and, at the reporting date, have remaining maturity periods ranging between 10 days to 93 years (2014: 2 months to 93 years). The average yield on investments in Canadian equity securities is 1.30% (2014: 16.09%).

The financial assets held in the Canadian Income and Dividend Fund as at March 31 are held by:

As at March 31 *(in thousands of dollars)*	2015	2014
Estates and Trusts	85,721	82,177
Administration Fund	23,233	22,602
	108,954	104,779

The income earned in this fund may be distributed in cash to unit holders monthly or reinvested in this fund.

6.4 Equity securities – client owned

As at March 31 *(in thousands of dollars)*	2015	2014
Canadian listed securities	28,444	24,836
United States listed securities	888	863
Other listed securities	3,898	5,572
Unlisted securities	51	527
	33,281	31,798

These balances do not include indirect client holdings by way of their investment in Public Guardian and Trustee Funds by virtue of unit holdings in the various OPGT funds.

6.5 Fixed Income Funds – Estates and Trusts

As at March 31 *(in thousands of dollars)*	2015	2014
Bonds – Federal Government	18,394	21,789
Bonds – Provincial and Municipal Governments	572,533	409,921
Bonds – Corporate	762,368	673,130
Cash and Accrued Interest	9,659	8,547
	1,362,954	1,113,387

The bonds yield (at cost) annual interest of between 1.10–5.45% (2014: 1.9–5.5%) and, at the reporting date, have remaining maturity periods ranging between 27 days to 11 years (2014: 0 to 6 years).

Notes to financial statements (continued)
March 31, 2015 and 2014

5. Financial risk management

The Public Guardian and Trustee has exposure to credit risk, liquidity risk and market risk arising from financial instruments. This note presents information about OPGT's exposure to each of the above risks, and the OPGT's objectives, policies and processes for management of capital and measuring and managing risk.

5.1 **Credit risk**

Management of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Public Guardian and Trustee, resulting in a financial loss to the Estates and Trusts and the Administration Fund. It arises principally from debt securities held and accounts receivable.

The Public Guardian and Trustee mitigates this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial assets of both Estates and Trusts and the Administration Fund was:

As at March 31 *(in thousands of dollars)*	2015	2014
Cash and cash equivalents	76,889	72,045
Accounts receivable	7,827	15,358
Investments at fair value through profit or loss:		
Bonds and other debt securities - client owned	60,179	60,101
Diversified fund	53,622	48,176
Canadian income and dividend fund	50,592	44,898
Held to maturity investments:		
Fixed income funds	1,163,354	1,113,387
	1,399,828	1,352,081

Credit quality

As at March 31, Estates and Trusts and the Administration Fund hold unit investments in the Public Guardian and Trustee's unit funds that have underlying debt securities with the following credit quality:

Debt Securities	2015	2014
AAA/Aaa	18.88%	14.92%
AA/Aa	79.10%	82.83%
BBB/Baa	2.10%	2.25%

Notes to financial statements (continued)
March 31, 2015 and 2014

5. Financial risk management (continued)

5.1 Credit risk (continued)

Concentration of credit risk
As at March 31, the debt securities of Estates and Trusts and the Administration Fund held unit investments in the Public Guardian and Trustee's unitized funds that have underlying debt securities that were concentrated in the following sectors:

Debt Securities	2015	2014
Government and public sector	67.08%	65.12%
Banks and financial services	27.35%	28.67%
Other corporate	5.58%	6.21%

Past due and impaired assets
No financial assets carried at amortized cost were past due or impaired at March 31, 2015.

5.2 Liquidity risk
Liquidity risk is the risk that investment managers engaged by the Public Guardian and Trustee will not be able to easily liquidate a financial asset or liability.

The objective of the Public Guardian and Trustee is to ensure that adequate financial resources are available to meet ongoing requirements and to discharge the obligations of Estates and Trusts and the Administration Fund. The Public Guardian and Trustee mitigates liquidity risk by maintaining significant holdings in short-term, liquid, money market instruments within OPGT's fixed income funds.

Maturity analysis for financial instruments
As at March 31, 2015, the financial assets and liabilities of Estates and Trusts and the Administration Fund had the following remaining contractual maturity profile:

2015

in thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	[illegible]	[illegible]	–	–
Accounts receivable	[illegible]	[illegible]	–	[illegible]
Investments at fair value through profit or loss				
Bonds and other debt securities – client owned	[illegible]	[illegible]	[illegible]	[illegible]
Diversified fund	[illegible]	[illegible]	[illegible]	[illegible]
Canadian income and dividend fund	[illegible]	[illegible]	[illegible]	[illegible]
Equity securities – client owned	[illegible]	[illegible]	–	–
Held to maturity investments				
Fixed income funds	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]
Financial liabilities				
Accounts payable and accrued liabilities	[illegible]	[illegible]	–	[illegible]
Net assets attributable to beneficiaries of Estates and Trusts	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]

Notes to financial statements (continued)
March 31, 2015 and 2014

5. Financial risk management (continued)

5.2 Liquidity risk (continued)

2014

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	72,043	72,043	-	-
Accounts receivable	13,356	12,417	-	939
Investments at fair value through profit or loss				
Bonds and other debt securities – client owned	40,101	11,309	10,654	18,138
Diversified fund	141,683	96,194	3,276	42,213
Canadian income and dividend fund	104,779	60,998	1,814	41,967
Equity securities – client owned	31,798	31,798	-	-
Held to maturity investments				
Fixed income funds	1,113,387	92,545	214,216	806,626
	1,517,147	377,304	229,960	909,883
Financial liabilities				
Accounts payable and accrued liabilities	57,596	10,385	-	47,211
Net assets attributable to beneficiaries of Estates and Trusts	1,481,142	1,170,205	38,136	262,801
	1,538,738	1,180,590	38,136	310,012

5.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect investment income or the value of the holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk comprises currency risk, interest rate risk and other price risks (including equity price risk).

5.3.1 Currency risk

Currency risk is the risk that the fair value of investment assets and earnings on those assets will fluctuate as a result of changes in foreign exchange rates. Investments in the Diversified Fund are exposed to this risk which is also part of the return potential in the fund. Hedging foreign currency exposure is considered by management as part of an annual review of investment policies.

At March 31, the carrying value of net financial assets and liabilities held in foreign currencies expressed in Canadian Dollars is as follows:

In thousands of dollars	2015	2014
Estates and Trusts		
United States Dollars	30,914	28,116
Euros	6,358	5,007
Other foreign currencies	8,364	6,405
	45,636	39,528

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.1 Currency risk (continued)

The table below sets out the impact on net financial assets and liabilities from a reasonably possible weakening of the Canadian Dollar against the other currencies by 5% (2014: 5%) at March 31. The analysis assumes that all other variables, in particular interest rates, remain constant.

In thousands of dollars	2015	2014
United States Dollars	1,546	1,406
Euros	318	250
Other foreign currencies	418	320
	2,282	1,976

A strengthening of the Canadian Dollar against the other currencies would have resulted in a proportionate but opposite effect to the amounts shown above.

5.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. By adopting a hold to maturity policy on its fixed income funds, the Public Guardian and Trustee has significantly mitigated this risk, particularly for short-term, temporary movements in market interest rates.

The table below sets out the impact on the net financial assets and liabilities from a reasonably possible increase of 50-75 basis points in interest rates as at March 31. The impact of such an increase has been estimated by calculating the fair value changes of the fixed interest debt securities, excluding the fixed income funds which are held to maturity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of dollars	2015	2014
Impact on client (Estates and Trusts) and Administration fund assets	(737)	(673)

5.3.3 Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in the market price of equity instruments whether caused by factors specific to an individual investment or factors affecting all instruments traded in the market which, for international equities, includes changes in currency rates.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt, and defining asset component ranges to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices, including equity securities, are undertaken only when the client can invest for a medium to longer term.

Investments are made in funds, namely the Diversified fund and the Canadian income and dividend fund that have the following benchmarks for concentration of asset portfolios:

• Equity investments listed on Canadian stock exchanges	- 50% of fund assets
• Equity investments listed on US stock exchanges	- 15% of fund assets
• Equity investments listed on other stock exchanges	- 15% of fund assets
• Unlisted equity investments	- none

Investment managers are permitted to vary from these benchmarks within stipulated limits.

Notes to financial statements (continued)
March 31, 2015 and 2014

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.3 Equity price risk (continued)

Investment managers further monitor concentration of risk based on counterparties and industry sectors. At March 31, equity investments are concentrated in the following sectors:

	2015	2014
Banks and financial services	43%	47%
Information technology	11%	10%
Retail	7%	6%
Industrial and manufacturing	14%	13%
Other	25%	24%
	100%	100%

Investment managers engaged by the Public Guardian and Trustee estimate future reasonably possible equity price fluctuations for equity securities on an individual investment basis. The table below sets out the impact on the net financial assets and liabilities from a reasonably possible decrease of 10% in the price of individual equity securities as at March 31. This analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

In thousands of dollars	2015	2014
Impact on value of equity securities	(19,486)	(18,392)

A strengthening in the individual equity market prices of 10% as at March 31 would have resulted in a proportionate but opposite effect to the amounts shown above.

5.4 Fair value disclosures

The accounting policy for fair value measurements is detailed in accounting policy 3c(iii).

5.4.1 Fair values versus carrying amounts

The carrying amounts approximate fair value for all financial assets and liabilities, except for the fixed income funds which are held to maturity investments whose fair values for the Estates and Trusts administered by OPGT is $1,169,088 (2014: $1,128,300). As a result, the fair value of net assets attributable to beneficiaries of Estates and Trust clients is $1,552,776 (2014: $1,496,054).

5.4.2 Fair value hierarchy

The fair value measurements used by the Public Guardian and Trustee place the highest priority on observable market inputs and the lowest priority on unobservable internally developed inputs. Accordingly, the Public Guardian and Trustee classifies its assets and liabilities that are measured at fair value, or for which fair value information is disclosed, within a three-level valuation hierarchy that reflects the inputs to valuation techniques used to determine fair value. Level 1 represents valuations based on unadjusted quoted prices in active markets for identical assets or liabilities, level 2 comprises valuations using models or techniques that incorporate observable market information and level 3 comprises valuations based models without observable market information as inputs. The classification determination is based on the lowest level of input that is significant to the valuation.

5.4 Fair value disclosures (continued)

5.4.2 Fair value hierarchy (continued)

The following fair value hierarchy table presents information about financial assets measured at fair value on a recurring basis as of March 31, 2015 and 2014.

Estates and Trusts

As of March 31, 2015	Level 1	Level 2	Level 3	Total
In thousands of dollars				
Cash and cash equivalents	72,055	-	-	72,055
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	40,172	-	40,172
Diversified fund	83,429	-	-	83,429
Canadian income and dividend fund	86,721	-	-	86,721
Equity securities – client owned	32,968	51	-	33,019
	275,173	40,223	-	315,396

As of March 31, 2014	Level 1	Level 2	Level 3	Total
In thousands of dollars				
Cash and cash equivalents	69,326	-	-	69,326
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	-	40,101	-	40,101
Diversified fund	76,112	-	-	76,112
Canadian income and dividend fund	82,177	-	-	82,177
Equity securities – client owned	31,271	527	-	31,798
	258,886	40,628	-	299,514

Administration Fund

As of March 31, 2015	Level 1	Level 2	Level 3	Total
In thousands of dollars				
Cash and cash equivalents	2,614	-	-	2,614
Investments at fair value through profit or loss:				
Diversified fund	73,637	-	-	73,637
Canadian income and dividend fund	23,233	-	-	23,233
	99,484	-	-	99,484

As of March 31, 2014	Level 1	Level 2	Level 3	Total
In thousands of dollars				
Cash and cash equivalents	2,717	-	-	2,717
Investments at fair value through profit or loss:				
Diversified fund	65,571	-	-	65,571
Canadian income and dividend fund	22,602	-	-	22,602
	90,890	-	-	90,890

The following was used to determine the fair value measurements categorized in Level 2:

- The fair value of bonds and equities was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2015 and 2014 there were no significant transfers of financial instruments between Level 1 and Level 2.

Notes to financial statements (continued)
March 31, 2015 and 2014

5.5 Capital management

The Public Guardian and Trustee's operating capital is shown in the Administration Fund, and consists of various specific purpose funds and an unappropriated fund (detailed in the statement of changes in equity of the Administration Fund). The Public Guardian and Trustee is not subject to externally imposed capital requirements.

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to service clients and safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, to be sufficient to support The Public Guardian and Trustee's ability to operate on an ongoing basis. The objectives have not changed during the year.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and Canadian income and dividend funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

Notes to financial statements (continued)
March 31, 2015 and 2014

6. Accounts receivable

As at March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Accrued revenue	-	-	2,229	2,144
Balances due from the Federal and Provincial Government, its Agencies and Crown Corporations	-	-	18	16
Balances due from the Administration Fund	3,005	6,256	-	-
Other receivables	2,361	2,417	14	2,523
	5,366	8,673	2,261	4,683

7. Other assets

As at March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Life Insurance	6,024	5,930	-	-
Prepaid Funerals, Cemetery plots and burial Instruments	5,110	5,102	-	-
Furniture and Medical Aid Equipment	886	928	-	-
Jewellery	1,037	894	-	-
Vehicles	589	761	-	-
Collectibles Art	176	152	-	-
Other	195	3	-	-
	343	698	-	-
	14,360	14,468	-	-

8. Accounts payable and accrued liabilities

As at March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Accrued expenses				
Balances due to the Federal and Provincial Government, its Agencies and Crown Corporations	2,083	2,082	2,014	2,045
Balances due to Estates and Trusts	4,484	6,964	-	-
Other liabilities of Estates and Trust clients	-	-	3,005	6,256
	41,009	40,249	-	-
	47,576	49,295	5,019	8,301

Other liabilities of Estates and Trusts include mortgages payable, credit card balances, health facility accommodation fees, and charges for services such as telecommunication and utilities.

Notes to financial statements (continued)
March 31, 2015 and 2014

9. Intangible assets

As at March 31

In thousands of dollars

	Admin Fund 2015	Admin Fund 2014
Computer software - client management information system		
Cost – beginning and end of the year	-	11,633
Accumulated amortization – beginning of the year	-	9,307
Amortization for the year	-	2,326
Accumulated amortization – end of the year	-	11,633
Net book value – beginning of the year	-	2,326
Amortization for the year	-	2,326
Net book value – end of the year	-	-

10. Fees charged by the Administration Fund to Estates and Trusts

For the period ended March 31

In thousands of dollars

	Admin Fund 2015	Admin Fund 2014
Client trusts	18,908	17,311
Minors	2,580	2,635
Deceased Estates	3,099	2,862
Litigants	1,748	1,595
Cemetery trusts	209	198
Forfeited corporate assets/corporate trusts	70	123
	26,614	24,724

Notes to financial statements (continued)
March 31, 2015 and 2014

11. Other interest and dividend income

For the period ended March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Earned on investments at fair value through profit or loss				
Bonds and other debt securities – client owned	2,538	2,787	-	-
Diversified fund	2,139	2,056	1,869	1,804
Canadian income and dividend fund	3,149	3,061	850	852
Earned on loans and receivables				
Accounts receivable	475	316	-	-
	8,301	8,220	2,719	2,656

12. Gain/loss on investments

12.1 Net realized gain on sale of investments at fair value through profit or loss

For the period ended March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Bonds and other debt securities – client owned	7	90	-	-
Diversified fund	2,954	2,035	3,117	2,316
Canadian income and dividend fund	354	585	96	164
Equity securities-client owned	2,202	2,155	-	-
	5,517	4,865	3,213	2,480

12.2 Net unrealized gain on investments at fair value through profit or loss

For the period ended March 31

In thousands of dollars

	Estates and Trusts 2015	Estates and Trusts 2014	Admin Fund 2015	Admin Fund 2014
Bonds and other debt securities – client owned	652	418	-	-
Diversified fund	2,282	5,112	1,484	4,042
Canadian income and dividend fund	(1,205)	3,450	(315)	962
Equity securities-client owned	4,167	5,051	-	-
	5,896	14,031	1,169	5,004

Notes to financial statements (continued)
March 31, 2015 and 2014

13. Investment expenses

For the period ended March 31

In thousands of dollars Investment	Admin Fund 2015	Admin Fund 2014
management fees Investment	935	886
dealer fees Custodian fees	268	224
Investment counsel fees	268	266
Bank charges	187	179
	267	291
	1,925	1,846

14. Salaries, wages and benefits

For the period ended March 31

In thousands of dollars

	Admin Fund 2015	Admin Fund 2014
Salaries and wages		
Compulsory employer contributions	30,559	30,049
Other benefits	1,936	1,970
Termination benefits	1,899	1,653
	312	391
	34,706	34,063

15. General Administration

For the period ended March 31

In thousands of dollars

	Admin Fund 2015	Admin Fund 2014
Systems Development and Data Processing		
Leases and rentals	1,854	1,857
Training and education	463	370
Security	181	171
Miscellaneous expenses	197	230
	513	350
	3,208	2,978

16. Related party transactions

The Government of the Province of Ontario, its Agencies and its Crown Corporations are related parties to the Public Guardian and Trustee. Under IFRS, a reporting entity is exempt from the disclosure requirements of IAS 24, *Related Party Disclosures* in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Public Guardian and Trustee has utilized this exemption in preparing these financial statements.

In the normal course of business, transactions occur with the Government of the Province of Ontario, its Agencies and its crown Corporations and include the following types of transactions and outstanding balances, all of which have been recognized in these financial statements:

a) Investments in certain financial instruments that are issued by these related parties;
b) Expenditure on certain services including information technology and telecommunication costs provided by these related parties; and
c) The Province of Ontario provides funding for the operations of OPGT including expenditures relating to salaries, wages and benefits, transportation and communication costs, supplies, equipment and general administrative costs. In addition, OPGT remits surplus income to the Province of Ontario on a quarterly basis. During the year the Province provided funding amounting to $39,287,917 (2014: $38,446,018) and recovered $22,418,776 (2014: $22,051,298), for a net grant by the Province of $16,869,141 (2014: $16,394,720).

In addition, in the normal course of business, the following transactions are entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

a) Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Ministry of Government and Consumer Services (MGS) funds the employer's contribution to the Pension Funds;
b) The cost of post-retirement, non-pension employee benefits are paid by MGS;
c) The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General; and
d) MGS provides payroll and payment processing for the Public Guardian and Trustee.

Key management personnel compensation

Staff, including key management personnel are employees of the Ministry of the Attorney General, Ontario Public Service (OPS). All management compensation is in accordance with Management Board of Cabinet Compensation Directives and compensation follows approved OPS compensation practices. This includes public disclosure for all individuals earning more than $100,000 in a calendar year.

The benefit costs as set out in the schedule below does not include any specific post–employment, termination or other long term benefits but the cost of these benefits are funded by MGS as set out in Note 3(g) (ii).

In addition to the salaries and mandatory employer contributions to government programs (Canada Pension Plan and Employment Insurance), senior managers also participate in various group life, health and dental plans for which the employer shares the premiums.

Key management personnel compensation comprises the following:

In thousands of dollars	**Admin Fund 2015**	**Admin Fund 2014**
Salaries and Wages	1,040	1,089
Employee benefits	21	23

17. Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act*. The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*. After a period of ten years, any property so received by the Public Guardian and Trustee which remains unclaimed is required to be transferred to the Consolidated Revenue Fund (CRF) of the Province of Ontario. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, escheats from Deceased Estates totaling $1,077,375 (2014: $1,112,991) were transferred to the CRF.

Under the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which have been forfeited to the Crown under various corporate statutes. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts.

18. Contingencies and commitments

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time. Liabilities for any settlements will be recognized if and when the criteria for recognizing provisions is met (see accounting policy note 3 (l)).

19. Subsequent events

There have not been any events subsequent to March 31, 2015 that would impact the information presented in these financial statements.

20. Comparative figures

Certain 2014 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2015.

WORKPLACE SAFETY AND INSURANCE BOARD

Workplace Safety and Insurance Board financial statements for the year ended December 31, 2014 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/english/ .

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)

for the year ended March 31, 2015

MINISTRY	2014-15
FINANCE	251,773,250.39
TRAINING, COLLEGES AND UNIVERSITIES	68,170,418.46
COMMUNITY AND SOCIAL SERVICES	11,801,016.57
NORTHERN DEVELOPMENT AND MINES	7,239,117.66
ATTORNEY GENERAL	6,008,479.34
ECONOMIC DEVELOPMENT, TRADE, EMPLOYMENT RESEARCH AND INNOVATION	5,900,000.00
HEALTH AND LONG-TERM CARE	1,117,967.31
TRANSPORTATION	898,384.88
COMMUNITY SAFETY AND CORRECTIONAL SERVICES	888,157.12
INFRASTRUCTURE	373,725.34
CHILDREN AND YOUTH SERVICES	198,653.23
NATURAL RESOURCES	155,879.08
AGRICULTURE, FOOD AND RURAL AFFAIRS	127,863.24
EDUCATION	26,312.70
LABOUR	24,382.47
GOVERNMENT SERVICES	16,603.18
ENVIRONMENT	8,405.93
CITIZENSHIP, IMMIGRATION AND INTERNATIONAL TRADE	4,375.43
TOURISM, CULTURE, AND SPORT	2,099.62
Total	$ 354,473,661.86

REVENUE REMISSIONS

Details of Remission granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2015

Description of the Order-in-Council	Amount
OIC 846/2013: In June 2013, remission was granted to the City of Toronto for the principal sum outstanding and the accrued interest owing under a 2004 Debenture, Asset Identification and Transfer Process Agreement between the Ministry of Municipal Affairs and Housing and the City of Toronto. As of June 1, 2013, the principal amount outstanding was $170,171,125 and the accrued interest owing was $43,969,479. The amount remitted under this Order shall be determined for each fiscal year of the Province of Ontario, commencing with the 2013-14 fiscal year. The remission shall be equal to the amount by which the Greater Toronto Area Pooling Compensation transfer payments for the fiscal year were less than the payments for the corresponding year set out in the order. For fiscal year 2014-15, the Greater Toronto Area Pooling Compensation total transfer payment was $87,500,000 while the payment set out in the Order in Council was $140,775,000. The amount remitted each fiscal year shall be allocated first to the remission of the outstanding principal amount and any remainder to the remission of the accrued interest owing.	$53,275,000

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